

AMENDED IN ASSEMBLY AUGUST 22, 2001

AMENDED IN ASSEMBLY AUGUST 20, 2001

AMENDED IN ASSEMBLY JULY 3, 2001

AMENDED IN SENATE APRIL 19, 2001

SENATE BILL

No. 1185

**Introduced by Committee on Revenue and Taxation (Senators
Scott (Chair), Alpert, Bowen, and Burton)**

February 28, 2001

An act to ~~amend~~ *Sections Section 25205.5 of the Health and Safety Code, to amend Sections 7096, 9274, 17037, 17062, 17276, 18417, 18633.5, 19104, 19191, 19192, 19306, 19311, 19378, 19443, 19604, 19607, 19705, 21006, 21027, 23001, 23040.1, 23051.7, 23055, 23182, 23608.2, 23609, 23610.5, 23622.8, 23630, 23645, 23649, 23772, 24416, 24453, and 24472 23646, 23649, 23772, 24416, 24453, 24472, 30459.4, 32402, 32474, 40214, 41174, 43525, 45652, 45870, 46502, 46625, 50140, 50156.14, 55222, 55335, and 60633.1* of, to amend the heading of Part 11 (commencing with Section 23001) of Division 2 of, and to amend the heading of Chapter 2 (commencing with Section 23101) of Part 11 of Division 2 of, *and to add Section 55053 to*, the Revenue and Taxation Code, relating to ~~taxation~~ *state levies*.

LEGISLATIVE COUNSEL'S DIGEST

SB 1185, as amended, Committee on Revenue and Taxation. Income and corporation taxes: ~~electronic sales taxes: fees: administration: corporation: credits: refunds: disclosure.~~

Existing law requires every generator of hazardous waste to pay an annual generator fee to the State Board of Equalization. Existing law

provides for a refund of the generator fee paid under certain conditions and requires an application for a refund to be submitted to the board by March 31 of the fiscal year during which the generator paid the fee.

This bill would instead require that application to be submitted by the September 30 following the fiscal year during which the generator paid the fee.

Existing law provides that a taxpayer may file a claim with the State Board of Equalization for reimbursement of bank charges incurred as the direct result of an erroneous levy or notice to withhold by the board.

This bill would additionally allow reimbursement under those circumstances for any other reasonable 3rd-party check charge fees.

Under existing law, the Franchise Tax Board has adopted a policy of using electronic postmarks as the filing date of electronically filed tax returns.

This bill would codify that policy by conforming to provisions of federal income tax laws that allow electronic postmarks as proof of the date electronically filed tax returns are deemed filed.

The Bank and Corporation Tax Law imposes taxes upon income, as provided.

This bill would change the name of that law to the Corporation Tax Law and make conforming changes.

Existing income and bank and corporation tax laws allow a taxpayer to file a claim for refund or credit resulting from a federal adjustment within 2 years of the final federal determination.

This bill would allow the Franchise Tax Board to initiate an action on an overpayment resulting from a final federal determination, as provided.

Existing income and bank and corporation tax laws authorize the Franchise Tax Board to enter into voluntary disclosure agreements with specified entities.

This bill would authorize the board to also enter into those agreements with certain trusts and nonresident beneficiaries.

The Bank and Corporation Tax Law authorizes various credits against the taxes imposed by that law, including a credit against taxes imposed by that law in an amount equal to 6% of the amount paid or incurred during the taxable year for qualified property, as defined, that is placed in service in this state. The credit is required to be recaptured for dispositions of qualified property.

This bill would provide that certain sales of stock shall not be treated as a disposition of qualified property, as provided.



The Bank and Corporation Tax Law, in general, imposes a franchise tax measured by the net income from California sources of the preceding calendar or fiscal year, which is referred to as the “income year.” The calendar or fiscal year for which the tax is imposed for the privilege of doing business in this state is referred to as the “taxable year.”

This bill would, ~~for calendar or fiscal years beginning on or after January 1, 2000~~, delete references to “income year,” and instead define “taxable year” as the calendar or fiscal year upon the basis of which the net income is computed.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. *Section 25205.5 of the Health and Safety Code*
2 *is amended to read:*
3 25205.5. (a) In addition to the fee imposed pursuant to
4 Section 25174.1, every generator of hazardous waste, in the
5 amounts specified in subdivision (c), shall pay the board a
6 generator fee for each generator site for each calendar year, or
7 portion thereof, unless the generator has paid a facility fee or
8 received a credit, as specified in Section 25205.2, for each specific
9 site, for the calendar year for which the generator fee is due.
10 (b) The base fee rate for the fee imposed pursuant to
11 subdivision (a) is two thousand seven hundred forty-eight dollars
12 (\$2,748).
13 (c) (1) Each generator who generates an amount equal to, or
14 more than, five tons, but less than 25 tons, of hazardous waste
15 during the prior calendar year shall pay 5 percent of the base rate.
16 (2) Each generator who generates an amount equal to, or more
17 than, 25 tons, but less than 50 tons, of hazardous waste during the
18 prior calendar year shall pay 40 percent of the base rate.
19 (3) Each generator who generates an amount equal to, or more
20 than, 50 tons, but less than 250 tons, of hazardous waste during the
21 prior calendar year shall pay the base rate.
22 (4) Each generator who generates an amount equal to, or more
23 than, 250 tons, but less than 500 tons, of hazardous waste during
24 the prior calendar year shall pay five times the base rate.

1 (5) Each generator who generates an amount equal to, or more
2 than, 500 tons, but less than 1,000 tons, of hazardous waste during
3 the prior calendar year shall pay 10 times the base rate.

4 (6) Each generator who generates an amount equal to, or more
5 than, 1,000 tons, but less than 2,000 tons, of hazardous waste
6 during the prior calendar year shall pay 15 times the base rate.

7 (7) Each generator who generates an amount equal to, or more
8 than, 2,000 tons of hazardous waste during the prior calendar year
9 shall pay 20 times the base rate.

10 (d) The base rate established pursuant to subdivision (b) was
11 the base rate for the 1997 calendar year and the board shall adjust
12 the base rate annually to reflect increases or decreases in the cost
13 of living, during the prior fiscal year, as measured by the
14 Consumer Price Index issued by the Department of Industrial
15 Relations or by a successor agency.

16 (e) The establishment of the annual operating fee pursuant to
17 this section is exempt from Chapter 3.5 (commencing with Section
18 11340) of Part 1 of Division 3 of Title 2 of the Government Code.

19 (f) The following materials are not hazardous wastes for
20 purposes of this section:

21 (1) Hazardous materials which are recycled, and used onsite,
22 and are not transferred offsite.

23 (2) Aqueous waste treated in a treatment unit operating, or
24 which subsequently operates, pursuant to a permit-by-rule, or
25 pursuant to Section 25200.3 or 25201.5. However, hazardous
26 waste generated by a treatment unit treating waste pursuant to a
27 permit-by-rule, by a unit which subsequently obtains a
28 permit-by-rule, or other authorization pursuant to Section 25200.3
29 or 25201.5 is hazardous waste for purposes of this section.

30 (g) The fee imposed pursuant to this section shall be paid in
31 accordance with Part 22 (commencing with Section 43001) of
32 Division 2 of the Revenue and Taxation Code.

33 (h) (1) A generator who pays a hazardous waste generator
34 inspection fee to a certified unified program agency, which is
35 imposed as part of a single fee system and fee accountability
36 program that are both in compliance with the requirements of
37 Section 25404.5, shall be eligible for a refund of all, or part of, the
38 generator fee paid pursuant to subdivision (a) if both of the
39 following conditions apply:

(A) The generator received a credit pursuant to Section 43152.7 or 43152.11 of the Revenue and Taxation Code for fees paid for hazardous waste generated in 1996.

(B) The department certifies, pursuant to subdivision (b) of Section 25205.9, that funds are available to pay all or part of the refund.

(2) A generator who is eligible for a refund pursuant to paragraph (1) shall submit an application for that refund to the board by ~~March 31~~ of *September 30 following* the fiscal year during which the generator paid the generator fee pursuant to subdivision (a). An application for a refund postmarked after ~~March 31~~ *September 30* is void, shall not be processed by the board, and shall be returned to the applicant.

(i) (1) A generator who transfers hazardous materials to an offsite facility for recycling at that offsite facility or another offsite facility shall be eligible for a refund of all, or part of, the generator fee paid pursuant to subdivision (a) if all of the following conditions apply:

(A) The offsite facility to which the hazardous materials are manifested pays a facility fee pursuant to Section 25205.2.

(B) The amount of hazardous materials transferred to the offsite facility and recycled there, when deducted from the total tonnage of hazardous waste generated at the generator's site, results in the generator becoming eligible for a generator fee that is lower than the fee paid pursuant to subdivision (a).

(C) The hazardous materials transferred to the offsite facility are not burned in a boiler, industrial furnace, or an incinerator, as those terms are defined in Section 260.10 of Title 40 of the Code of Federal Regulations, used in a manner constituting disposal, or used to produce products that are applied to land.

(D) The department certifies, pursuant to subdivision (b) of Section 25205.9, that funds are available to pay all or part of the refund.

(2) A generator who is eligible for a refund pursuant to paragraph (1) shall submit an application for that refund to the board by ~~March 31~~ of *September 30 following* the fiscal year during which the generator paid the generator fee pursuant to subdivision (a). An application for a refund postmarked after ~~March 31~~ *September 30* is void, shall not be processed by the board, and shall be returned to the applicant.

(j) (1) The amendment of this section made by Chapter 1125 of the Statutes of 1991 does not constitute a change in, but is declaratory of, existing law.

(2) The amendment of subdivision (a) of this section made by Chapter 259 of the Statutes of 1996 does not constitute a change in, but is declaratory of, existing law.

SEC. 2. *Section 7096 of the Revenue and Taxation Code is amended to read:*

7096. (a) A taxpayer may file a claim with the board for reimbursement of bank charges *and any other reasonable third-party check charge fees* incurred by the taxpayer as the direct result of an erroneous levy or notice to withhold by the board. Bank *and third-party* charges include a financial institution's *or third party's* customary charge for complying with the levy or notice to withhold instructions and reasonable charges for overdrafts that are a direct consequence of the erroneous levy or notice to withhold. The charges are those paid by the taxpayer and not waived or reimbursed by the financial institution *or third party*. Each claimant applying for reimbursement shall file a claim with the board ~~which that~~ shall be in ~~such the~~ form as may be prescribed by the board. In order for the board to grant a claim, the board shall determine that both of the following conditions have been satisfied:

(1) The erroneous levy or notice to withhold was caused by board error.

(2) Prior to the levy or notice to withhold, the taxpayer responded to all contacts by the board and provided the board with any requested information or documentation sufficient to establish the taxpayer's position. This provision may be waived by the board for reasonable cause.

(b) Claims pursuant to this section shall be filed within 90 days from the date of the levy or notice to withhold. Within 30 days from the date the claim is received, the board shall respond to the claim. If the board denies the claim, the taxpayer shall be notified in writing of the reason or reasons for the denial of the claim.

SEC. 3. *Section 9274 of the Revenue and Taxation Code is amended to read:*

9274. (a) A taxpayer may file a claim with the board for reimbursement of bank charges *and any other reasonable third-party check charge fees* incurred by the taxpayer as the direct

1 result of an erroneous levy or notice to withhold by the board. Bank
2 *and third-party* charges include a financial institution's *or third*
3 *party's* customary charge for complying with the levy or notice to
4 withhold instructions and reasonable charges for overdrafts that
5 are a direct consequence of the erroneous levy or notice to
6 withhold. The charges are those paid by the taxpayer and not
7 waived for reimbursement by the financial institution *or third*
8 *party*. Each claimant applying for reimbursement shall file a claim
9 with the board that shall be in a form as may be prescribed by the
10 board. In order for the board to grant a claim, the board shall
11 determine that both of the following conditions have been
12 satisfied:

13 (1) The erroneous levy or notice to withhold was caused by
14 board error.

15 (2) Prior to the levy or notice to withhold, the taxpayer
16 responded to all contacts by the board and provided the board with
17 any requested information or documentation sufficient to establish
18 the taxpayer's position. This provision may be waived by the board
19 for reasonable cause.

20 (b) Claims pursuant to this section shall be filed within 90 days
21 from the date of the levy or notice to withhold. Within 30 days
22 from the date the claim is received, the board shall respond to the
23 claim. If the board denies the claim, the taxpayer shall be notified
24 in writing of the reason or reasons for the denial of the claim.

25 *SEC. 4.* Section 17037 of the Revenue and Taxation Code is
26 amended to read:

27 17037. Provisions in other codes or general law statutes which
28 are related to this part include all of the following:

29 (a) Chapter 20.6 (commencing with Section 9891) of Division
30 3 of the Business and Professions Code, relating to tax preparers.

31 (b) Part 10.2 (commencing with Section 18401), relating to the
32 administration of franchise and income tax laws.

33 (c) Part 10.5 (commencing with Section 20501), relating to the
34 Property Tax Assistance and Postponement Law.

35 (d) Part 10.7 (commencing with Section 21001), relating to the
36 Taxpayers' Bill of Rights.

37 (e) Part 11 (commencing with Section 23001), relating to the
38 Corporation Tax Law.

39 (f) Sections 15700 to 15702.1, inclusive, of the Government
40 Code, relating to the Franchise Tax Board.

SEC. 5. Section 17062 of the Revenue and Taxation Code is amended to read:

17062. (a) In addition to the other taxes imposed by this part, there is hereby imposed for each taxable year, a tax equal to the excess, if any, of—

(1) The tentative minimum tax for the taxable year, over

(2) The regular tax for the taxable year.

(b) For purposes of this chapter, each of the following shall apply:

(1) The tentative minimum tax shall be computed in accordance with Sections 55 to 59, inclusive, of the Internal Revenue Code, except as otherwise provided in this part.

(2) The regular tax shall be the amount of tax imposed by Section 17041 or 17048, before reduction for any credits against the tax, less any amount imposed under paragraph (1) of subdivision (d) and paragraph (1) of subdivision (e) of Section 17560.

(3) (A) The provisions of Section 55(b)(1) of the Internal Revenue Code shall be modified to provide that the tentative minimum tax for the taxable year shall be equal to the following percent of so much of the alternative minimum taxable income for the taxable year as exceeds the exemption amount, before reduction for any credits against the tax:

(i) For any taxable year beginning on or after January 1, 1991, and before January 1, 1996, 8.5 percent.

(ii) For any taxable year beginning on or after January 1, 1996, 7 percent.

(B) In the case of a nonresident or part-year resident, the tentative minimum tax shall be computed as if the nonresident or part-year resident were a resident for the entire year multiplied by the ratio of California adjusted gross income (as modified for purposes of this chapter) to total adjusted gross income from all sources (as modified for purposes of this chapter). For purposes of computing the tax under subparagraph (A) and gross income from all sources, the net operating loss deduction provided in Section 56(d) of the Internal Revenue Code shall be computed as if the taxpayer were a resident for all prior years.

(C) For purposes of this section, the term “California adjusted gross income” includes each of the following:

1 (i) For any period during which the taxpayer was a resident of
2 this state (as defined by Section 17014), all items of adjusted gross
3 income (as modified for purposes of this chapter), regardless of
4 source.

5 (ii) For any period during which the taxpayer was not a resident
6 of this state, only those items of adjusted gross income (as
7 modified for purposes of this chapter) which were derived from
8 sources within this state, determined in accordance with Chapter
9 11 (commencing with Section 17951).

10 (4) The provisions of Section 55(b)(2) of the Internal Revenue
11 Code, relating to alternative minimum taxable income, shall be
12 modified to provide that alternative minimum taxable income
13 shall not include the income, adjustments, and items of tax
14 preference attributable to any trade or business of a qualified
15 taxpayer.

16 (A) For purposes of this paragraph, “qualified taxpayer”
17 means a taxpayer who meets both of the following:

18 (i) Is the owner of, or has an ownership interest in, a trade or
19 business.

20 (ii) Has aggregate gross receipts, less returns and allowances,
21 of less than one million dollars (\$1,000,000) during the taxable
22 year from all trades or businesses of which the taxpayer is the
23 owner or has an ownership interest, in the amount of that
24 taxpayer’s proportionate interest in each trade or business.

25 (B) For purposes of this paragraph, “aggregate gross receipts,
26 less returns and allowances” means the sum of the gross receipts
27 of the trades or businesses which the taxpayer owns and the
28 proportionate interest of the gross receipts of the trades or
29 businesses which the taxpayer owns and of passthrough entities in
30 which the taxpayer holds an interest.

31 (C) For purposes of this paragraph, “gross receipts, less returns
32 and allowances” means the sum of the gross receipts from the
33 production of business income, as defined in subdivision (a) of
34 Section 25120, and the gross receipts from the production of
35 nonbusiness income, as defined in subdivision (d) of Section
36 25120.

37 (D) For purposes of this paragraph, “proportionate interest”
38 means:

- 1 (i) In the case of a passthrough entity which reports a profit for
2 the taxable year, the taxpayer's profit interest in the entity at the
3 end of the taxpayer's taxable year.
- 4 (ii) In the case of a passthrough entity which reports a loss for
5 the taxable year, the taxpayer's loss interest in the entity at the end
6 of the taxpayer's taxable year.
- 7 (iii) In the case of a passthrough entity which is sold or
8 liquidates during the taxable year, the taxpayer's capital account
9 interest in the entity at the time of the sale or liquidation.
- 10 (E) (i) For purposes of this paragraph, "proportionate
11 interest" includes an interest in a passthrough entity.
- 12 (ii) For purposes of this paragraph, "passthrough entity"
13 means any of the following:
- 14 (I) A partnership, as defined by Section 17008.
- 15 (II) An S corporation, as provided in Chapter 4.5 (commencing
16 with Section 23800) of Part 11.
- 17 (III) A regulated investment company, as provided in Section
18 24871.
- 19 (IV) A real estate investment trust, as provided in Section
20 24872.
- 21 (V) A real estate mortgage investment conduit, as provided in
22 Section 24874.
- 23 (5) For taxable years beginning on or after January 1, 1998,
24 Section 55(d)(1) of the Internal Revenue Code, relating to
25 exemption amount for taxpayers other than corporations is
26 modified, for purposes of this part, to provide the following
27 exemption amounts in lieu of those contained therein:
- 28 (A) Fifty-seven thousand two hundred sixty dollars (\$57,260)
29 in the case of either of the following:
- 30 (i) A joint return.
- 31 (ii) A surviving spouse.
- 32 (B) Forty-two thousand nine hundred forty-five dollars
33 (\$42,945) in the case of an individual who is both of the following:
- 34 (i) Not a married individual.
- 35 (ii) Not a surviving spouse.
- 36 (C) Twenty-eight thousand six hundred thirty dollars
37 (\$28,630) in the case of either of the following:
- 38 (i) A married individual who files a separate return.
- 39 (ii) An estate or trust.

(6) For taxable years beginning on or after January 1, 1998, Section 55(d)(3) of the Internal Revenue Code, relating to the phaseout of exemption amount for taxpayers other than corporations is modified, for purposes of this part, to provide the following phaseout of exemption amounts in lieu of those contained therein:

(A) Two hundred fourteen thousand seven hundred twenty-five dollars (\$214,725) in the case of a taxpayer described in subparagraph (A) of paragraph (5).

(B) One hundred sixty-one thousand forty-four dollars (\$161,044) in the case of a taxpayer described in subparagraph (B) of paragraph (5).

(C) One hundred seven thousand three hundred sixty-two dollars (\$107,362) in the case of a taxpayer described in subparagraph (C) of paragraph (5).

(7) For each taxable year beginning on or after January 1, 1999, the Franchise Tax Board shall recompute the exemption amounts prescribed in paragraph (5) and the phaseout of exemption amounts prescribed in paragraph (6). Those computations shall be made as follows:

(A) The California Department of Industrial Relations shall transmit annually to the Franchise Tax Board the percentage change in the California Consumer Price Index for all items from June of the prior calendar year to June of the current calendar year, no later than August 1 of the current calendar year.

(B) The Franchise Tax Board shall do both of the following:

(i) Compute an inflation adjustment factor by adding 100 percent to the percentage change figure that is furnished pursuant to subparagraph (A) and dividing the result by 100.

(ii) Multiply the preceding taxable year exemption amounts and the phaseout of exemption amounts by the inflation adjustment factor determined in clause (i) and round off the resulting products to the nearest one dollar (\$1).

(c) (1) (A) Section 56(a)(6) of the Internal Revenue Code as in effect on January 1, 1997, relating to installment sales of certain property, shall not apply to payments received in taxable years beginning on or after January 1, 1997, with respect to dispositions occurring in taxable years beginning after December 31, 1987.

(B) This paragraph shall not apply to taxable years beginning on or after January 1, 1998.

1 (2) Section 56(b)(1)(E) of the Internal Revenue Code, relating
2 to standard deduction and deduction for personal exemptions not
3 allowed, is modified, for purposes of this part, to deny the standard
4 deduction allowed by Section 17073.5.

5 (3) Section 56(b)(3) of the Internal Revenue Code, relating to
6 treatment of incentive stock options, shall be modified to
7 additionally provide the following:

8 (A) Section 421 of the Internal Revenue Code shall not apply
9 to the transfer of stock acquired pursuant to the exercise of a
10 California qualified stock option under Section 17502.

11 (B) Section 422(c)(2) of the Internal Revenue Code shall apply
12 in any case where the disposition and inclusion of a California
13 qualified stock option for purposes of this chapter are within the
14 same taxable year and that section shall not apply in any other case.

15 (C) The adjusted basis of any stock acquired by the exercise of
16 a California qualified stock option shall be determined on the basis
17 of the treatment prescribed by this paragraph.

18 (d) The provisions of Section 57(a)(5) of the Internal Revenue
19 Code, relating to tax-exempt interest shall not apply.

20 (e) (1) Section 57(a) of the Internal Revenue Code, relating to
21 items of tax preference, is modified to include as an item of tax
22 preference the amount by which the deduction allowable under
23 Section 170 of the Internal Revenue Code, relating to charitable
24 contributions or gifts, or Section 642(c) of the Internal Revenue
25 Code, relating to deduction for amounts paid or permanently set
26 aside for a charitable purpose, would be reduced if all capital gain
27 property were taken into account at its adjusted basis.

28 (2) For purposes of paragraph (1), the term “capital gain
29 property” has the meaning given to that term by Section
30 170(b)(1)(C)(iv) of the Internal Revenue Code. That term shall not
31 include any property to which an election under Section
32 170(b)(1)(C)(iii) of the Internal Revenue Code applies.

33 (f) Section 57(a) of the Internal Revenue Code, relating to
34 items of tax preference, is modified to include as an item of tax
35 preference an amount equal to one-half of the amount excluded
36 from gross income for the taxable year under Section 18152.5.

37 (g) The provisions of Section 59(a) of the Internal Revenue
38 Code, relating to the alternative minimum tax foreign tax credit,
39 shall not apply.

1 SEC. 6. Section 17276 of the Revenue and Taxation Code is
2 amended to read:

3 17276. Except as provided in Sections 17276.1, 17276.2,
4 17276.4, 17276.5, and 17276.6, the deduction provided by Section
5 172 of the Internal Revenue Code, relating to a net operating loss
6 deduction, shall be modified as follows:

7 (a) (1) Net operating losses attributable to taxable years
8 beginning before January 1, 1987, shall not be allowed.

9 (2) A net operating loss shall not be carried forward to any
10 taxable year beginning before January 1, 1987.

11 (b) (1) Except as provided in paragraphs (2) and (3), the
12 provisions of Section 172(b)(2) of the Internal Revenue Code,
13 relating to the amount of carryovers, shall be modified so that the
14 applicable percentage of the entire amount of the net operating loss
15 for any taxable year shall be eligible for carryover to any
16 subsequent taxable year. For purposes of this subdivision, the
17 applicable percentage shall be:

18 (A) Fifty percent for any taxable year beginning before January
19 1, 2000.

20 (B) Fifty-five percent for any taxable year beginning on or after
21 January 1, 2000, and before January 1, 2002.

22 (C) Sixty percent for any taxable year beginning on or after
23 January 1, 2002, and before January 1, 2004.

24 (D) Sixty-five percent for any taxable year beginning on or
25 after January 1, 2004.

26 (2) In the case of a taxpayer who has a net operating loss in any
27 taxable year beginning on or after January 1, 1994, and who
28 operates a new business during that taxable year, each of the
29 following shall apply to each loss incurred during the first three
30 taxable years of operating the new business:

31 (A) If the net operating loss is equal to or less than the net loss
32 from the new business, 100 percent of the net operating loss shall
33 be carried forward as provided in subdivision (d).

34 (B) If the net operating loss is greater than the net loss from the
35 new business, the net operating loss shall be carried over as
36 follows:

37 (i) With respect to an amount equal to the net loss from the new
38 business, 100 percent of that amount shall be carried forward as
39 provided in subdivision (d).

(ii) With respect to the portion of the net operating loss which exceeds the net loss from the new business, the applicable percentage of that amount shall be carried forward as provided in subdivision (d).

(C) For purposes of Section 172(b)(2) of the Internal Revenue Code, the amount described in clause (ii) of subparagraph (B) shall be absorbed before the amount described in clause (i) of subparagraph (B).

(3) In the case of a taxpayer who has a net operating loss in any taxable year beginning on or after January 1, 1994, and who operates an eligible small business during that taxable year, each of the following shall apply:

(A) If the net operating loss is equal to or less than the net loss from the eligible small business, 100 percent of the net operating loss shall be carried forward to the taxable years specified in subdivision (d).

(B) If the net operating loss is greater than the net loss from the eligible small business, the net operating loss shall be carried over as follows:

(i) With respect to an amount equal to the net loss from the eligible small business, 100 percent of that amount shall be carried forward as provided in subdivision (d).

(ii) With respect to that portion of the net operating loss that exceeds the net loss from the eligible small business, the applicable percentage of that amount shall be carried forward as provided in subdivision (d).

(C) For purposes of Section 172(b)(2) of the Internal Revenue Code, the amount described in clause (ii) of subparagraph (B) shall be absorbed before the amount described in clause (i) of subparagraph (B).

(4) In the case of a taxpayer who has a net operating loss in a taxable year beginning on or after January 1, 1994, and who operates a business that qualifies as both a new business and an eligible small business under this section, that business shall be treated as a new business for the first three taxable years of the new business.

(5) In the case of a taxpayer who has a net operating loss in a taxable year beginning on or after January 1, 1994, and who operates more than one business, and more than one of those businesses qualifies as either a new business or an eligible small

business under this section, paragraph (2) shall be applied first, except that if there is any remaining portion of the net operating loss after application of clause (i) of subparagraph (B) of that paragraph, paragraph (3) shall be applied to the remaining portion of the net operating loss as though that remaining portion of the net operating loss constituted the entire net operating loss.

(6) For purposes of this section, the term “net loss” means the amount of net loss after application of Sections 465 and 469 of the Internal Revenue Code.

(c) Net operating loss carrybacks shall not be allowed.

(d) (1) (A) For a net operating loss for any taxable year beginning on or after January 1, 1987, and before January 1, 2000, Section 172(b)(1)(A)(ii) of the Internal Revenue Code, relating to years to which net operating losses may be carried, is modified to substitute “five taxable years” in lieu of “20 taxable years” except as otherwise provided in paragraphs (2) and (3).

(B) For a net operating loss for any taxable year beginning on or after January 1, 2000, Section 172(b)(1)(A)(ii) of the Internal Revenue Code, relating to years to which net operating losses may be carried, is modified to substitute “10 taxable years” in lieu of “20 taxable years.”

(2) For any taxable year beginning before January 1, 2000, in the case of a “new business,” the “five taxable years” in paragraph (1) shall be modified to read as follows:

(A) “Eight taxable years” for a net operating loss attributable to the first taxable year of that new business.

(B) “Seven taxable years” for a net operating loss attributable to the second taxable year of that new business.

(C) “Six taxable years” for a net operating loss attributable to the third taxable year of that new business.

(3) For any carryover of a net operating loss for which a deduction is denied by Section 17276.3, the carryover period specified in this subdivision shall be extended as follows:

(A) By one year for a net operating loss attributable to taxable years beginning in 1991.

(B) By two years for a net operating loss attributable to taxable years beginning prior to January 1, 1991.

(4) The net operating loss attributable to taxable years beginning on or after January 1, 1987, and before January 1, 1994, shall be a net operating loss carryover to each of the 10 taxable

1 years following the year of the loss if it is incurred by a taxpayer
2 that is under the jurisdiction of the court in a Title 11 or similar case
3 at any time during the taxable year. The loss carryover provided
4 in the preceding sentence shall not apply to any loss incurred after
5 the date the taxpayer is no longer under the jurisdiction of the court
6 in a Title 11 or similar case.

7 (e) For purposes of this section:

8 (1) “Eligible small business” means any trade or business that
9 has gross receipts, less returns and allowances, of less than one
10 million dollars (\$1,000,000) during the taxable year.

11 (2) Except as provided in subdivision (f), “new business”
12 means any trade or business activity that is first commenced in this
13 state on or after January 1, 1994.

14 (3) “Title 11 or similar case” shall have the same meaning as
15 in Section 368(a)(3) of the Internal Revenue Code.

16 (4) In the case of any trade or business activity conducted by a
17 partnership or S corporation, paragraphs (1) and (2) shall be
18 applied to the partnership or S corporation.

19 (f) For purposes of this section, in determining whether a trade
20 or business activity qualifies as a new business under paragraph (2)
21 of subdivision (e), the following rules shall apply:

22 (1) In any case where a taxpayer purchases or otherwise
23 acquires all or any portion of the assets of an existing trade or
24 business (irrespective of the form of entity) that is doing business
25 in this state (within the meaning of Section 23101), the trade or
26 business thereafter conducted by the taxpayer (or any related
27 person) shall not be treated as a new business if the aggregate fair
28 market value of the acquired assets (including real, personal,
29 tangible, and intangible property) used by the taxpayer (or any
30 related person) in the conduct of its trade or business exceeds 20
31 percent of the aggregate fair market value of the total assets of the
32 trade or business being conducted by the taxpayer (or any related
33 person). For purposes of this paragraph only, the following rules
34 shall apply:

35 (A) The determination of the relative fair market values of the
36 acquired assets and the total assets shall be made as of the last day
37 of the first taxable year in which the taxpayer (or any related
38 person) first uses any of the acquired trade or business assets in its
39 business activity.

(B) Any acquired assets that constituted property described in Section 1221(1) of the Internal Revenue Code in the hands of the transferor shall not be treated as assets acquired from an existing trade or business, unless those assets also constitute property described in Section 1221(1) of the Internal Revenue Code in the hands of the acquiring taxpayer (or related person).

(2) In any case where a taxpayer (or any related person) is engaged in one or more trade or business activities in this state, or has been engaged in one or more trade or business activities in this state within the preceding 36 months (“prior trade or business activity”), and thereafter commences an additional trade or business activity in this state, the additional trade or business activity shall only be treated as a new business if the additional trade or business activity is classified under a different division of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, than are any of the taxpayer’s (or any related person’s) current or prior trade or business activities.

(3) In any case where a taxpayer, including all related persons, is engaged in trade or business activities wholly outside of this state and the taxpayer first commences doing business in this state (within the meaning of Section 23101) after December 31, 1993 (other than by purchase or other acquisition described in paragraph (1)), the trade or business activity shall be treated as a new business under paragraph (2) of subdivision (e).

(4) In any case where the legal form under which a trade or business activity is being conducted is changed, the change in form shall be disregarded and the determination of whether the trade or business activity is a new business shall be made by treating the taxpayer as having purchased or otherwise acquired all or any portion of the assets of an existing trade or business under the rules of paragraph (1) of this subdivision.

(5) “Related person” shall mean any person that is related to the taxpayer under either Section 267 or 318 of the Internal Revenue Code.

(6) “Acquire” shall include any gift, inheritance, transfer incident to divorce, or any other transfer, whether or not for consideration.

(7) (A) For taxable years beginning on or after January 1, 1997, the term “new business” shall include any taxpayer that is

1 engaged in biopharmaceutical activities or other biotechnology
2 activities that are described in Codes 2833 to 2836, inclusive, of
3 the Standard Industrial Classification (SIC) Manual published by
4 the United States Office of Management and Budget, 1987 edition,
5 and as further amended, and that has not received regulatory
6 approval for any product from the United States Food and Drug
7 Administration.

8 (B) For purposes of this paragraph:

9 (i) “Biopharmaceutical activities” means those activities
10 which use organisms or materials derived from organisms, and
11 their cellular, subcellular, or molecular components, in order to
12 provide pharmaceutical products for human or animal
13 therapeutics and diagnostics. Biopharmaceutical activities make
14 use of living organisms to make commercial products, as opposed
15 to pharmaceutical activities which make use of chemical
16 compounds to produce commercial products.

17 (ii) “Other biotechnology activities” means activities
18 consisting of the application of recombinant DNA technology to
19 produce commercial products, as well as activities regarding
20 pharmaceutical delivery systems designed to provide a measure of
21 control over the rate, duration, and site of pharmaceutical delivery.

22 (g) In computing the modifications under Section 172(d)(2) of
23 the Internal Revenue Code, relating to capital gains and losses of
24 taxpayers other than corporations, the exclusion provided by
25 Section 18152.5 shall not be allowed.

26 (h) Notwithstanding any provisions of this section, a deduction
27 shall be allowed to a “qualified taxpayer” as provided in Sections
28 17276.1, 17276.2, 17276.4, 17276.5, and 17276.6.

29 (i) The Franchise Tax Board may prescribe appropriate
30 regulations to carry out the purposes of this section, including any
31 regulations necessary to prevent the avoidance of the purposes of
32 this section through splitups, shell corporations, partnerships,
33 tiered ownership structures, or otherwise.

34 (j) The Franchise Tax Board may reclassify any net operating
35 loss carryover determined under either paragraph (2) or (3) of
36 subdivision (b) as a net operating loss carryover under paragraph
37 (1) of subdivision (b) upon a showing that the reclassification is
38 necessary to prevent evasion of the purposes of this section.

(k) Except as otherwise provided, the amendments made by the act adding this subdivision shall apply to net operating losses for taxable years beginning on or after January 1, 2000.

SEC. 7. Section 18417 of the Revenue and Taxation Code is amended to read:

18417. Provisions in other codes or general law statutes that are related to this part include all of the following:

(a) Chapter 20.6 (commencing with Section 9891) of Division 3 of the Business and Professions Code, relating to tax preparers.

(b) Sections 1502, 2204 to 2206, inclusive, 6210, 6810, 8210, and 8810 of the Corporations Code, relating to the corporation officer statement penalty.

(c) Section 2104 of the Corporations Code, which prevents the application of any provision of this part against any foreign lending institution whose activities in this state are limited to those described in subdivision (d) of Section 191 of the Corporations Code.

(d) Sections 15700 to 15702.1, inclusive, of the Government Code, relating to the Franchise Tax Board.

(e) Part 10 (commencing with Section 17001) of this division, relating to the Personal Income Tax Law.

(f) Part 10.5 (commencing with Section 20501) of this division, relating to the Senior Citizens Property Tax Assistance and Postponement Law.

(g) Part 10.7 (commencing with Section 21001) of this division, relating to the Taxpayers' Bill of Rights.

(h) Part 11 (commencing with Section 23001) of this division, relating to the Corporation Tax Law.

SEC. 8. Section 18633.5 of the Revenue and Taxation Code is amended to read:

18633.5. (a) Every limited liability company which is classified as a partnership for California tax purposes that is doing business in this state, organized in this state, or registered with the Secretary of State shall file its return on or before the fifteenth day of the fourth month following the close of its taxable year, shall make a return for that taxable year, stating specifically the items of gross income and the deductions allowed by Part 10 (commencing with Section 17001). The return shall include the names, addresses, and taxpayer identification numbers of the persons, whether residents or nonresidents, who would be entitled

1 to share in the net income if distributed and the amount of the
2 distributive share of each person. The return shall contain or be
3 verified by a written declaration that it is made under penalty of
4 perjury, signed by one of the limited liability company members.
5 In the case of a limited liability company not doing business in this
6 state, and subject to the tax imposed by subdivision (b) of Section
7 17941, the Franchise Tax Board shall, for returns required to be
8 filed on or after January 1, 1998, prescribe the manner and extent
9 to which the information identified in this subdivision shall be
10 included with the return required by this subdivision.

11 (b) Each limited liability company required to file a return
12 under subdivision (a) for any limited liability company taxable
13 year shall, on or before the day on which the return for that taxable
14 year was required to be filed, furnish to each person who holds an
15 interest in that limited liability company at any time during that
16 taxable year a copy of that information required to be shown on
17 that return as may be required by forms and instructions prescribed
18 by the Franchise Tax Board.

19 (c) Any person who holds an interest in a limited liability
20 company as a nominee for another person shall do both of the
21 following:

22 (1) Furnish to the limited liability company, in the manner
23 prescribed by the Franchise Tax Board, the name, address, and
24 taxpayer identification number of that person, and any other
25 information for that taxable year as the Franchise Tax Board may
26 prescribe by forms and instructions.

27 (2) Furnish to that other person, in the manner prescribed by the
28 Franchise Tax Board, the information provided by that limited
29 liability company under subdivision (b).

30 (d) The provisions of Section 6031(d) of the Internal Revenue
31 Code, relating to the separate statement of items of unrelated
32 business taxable income, shall apply.

33 (e) (1) A limited liability company shall file with its return
34 required under subdivision (a), in the form required by the
35 Franchise Tax Board, the agreement of each nonresident member
36 to file a return pursuant to Section 18501, to make timely payment
37 of all taxes imposed on the member by this state with respect to the
38 income of the limited liability company, and to be subject to
39 personal jurisdiction in this state for purposes of the collection of
40 income taxes, together with related interest and penalties, imposed

on the member by this state with respect to the income of the limited liability company. If the limited liability company fails to timely file the agreements on behalf of each of its nonresident members, then the limited liability company shall, at the time set forth in subdivision (f), pay to this state on behalf of each nonresident member of whom an agreement has not been timely filed an amount equal to the highest marginal tax rate in effect under Section 17041, in the case of members which are individuals, estates, or trusts, and Section 23151, in the case of members which are corporations, multiplied by the amount of the member's distributive share of the income source to the state reflected on the limited liability company's return for the taxable period. A limited liability company shall be entitled to recover the payment made from the member on whose behalf the payment was made.

(2) If a limited liability company fails to attach the agreement or to timely pay the payment required by paragraph (1), the payment shall be considered the tax of the limited liability company for purposes of the penalty prescribed by Section 19132 and interest prescribed by Section 19101 for failure to timely pay the tax. Payment of the penalty and interest imposed on the limited liability company for failure to timely pay the amount required by this subdivision shall extinguish the liability of a nonresident member for the penalty and interest for failure to make timely payment of all taxes imposed on that member by this state with respect to the income of the limited liability company.

(3) No penalty or interest shall be imposed on the limited liability company under paragraph (2) if the nonresident member timely files and pays all taxes imposed on the member by this state with respect to the income of the limited liability company.

(f) Any agreement of a nonresident member required to be filed pursuant to subdivision (e) shall be filed at either of the following times:

(1) The time the annual return is required to be filed pursuant to this section for the first taxable period for which the limited liability company became subject to tax pursuant to Chapter 10.6 (commencing with Section 17941).

(2) The time the annual return is required to be filed pursuant to this section for any taxable period in which the limited liability company had a nonresident member on whose behalf an

1 agreement described in subdivision (e) has not been previously
2 filed.

3 (g) Any amount paid by the limited liability company to this
4 state pursuant to paragraph (1) of subdivision (e) shall be
5 considered to be a payment by the member on account of the
6 income tax imposed by this state on the member for the taxable
7 period.

8 (h) Every limited liability company that is classified as a
9 corporation for California tax purposes shall be subject to the
10 requirement to file a tax return under the provisions of Part 10.2
11 (commencing with Section 18401) and the applicable taxes
12 imposed by Part 11 (commencing with Section 23001) including
13 Section 23221 relating to the prepayment of the minimum tax to
14 the Secretary of State.

15 (i) (1) Every limited liability company doing business in this
16 state, organized in this state, or registered with the Secretary of
17 State, that is disregarded pursuant to Section 23038 shall file a
18 return that includes information necessary to verify its liability
19 under Sections 17941 and 17942, provides its sole owner's name
20 and taxpayer identification number, includes the consent of the
21 owner to California tax jurisdiction, and includes other
22 information necessary for the administration of this part, Part 10
23 (commencing with Section 17001), or Part 11 (commencing with
24 Section 23001).

25 (2) If the owner's consent required under paragraph (1) is not
26 included, the limited liability company shall pay on behalf of its
27 owner an amount consistent with, and treated the same as, the
28 amount to be paid under subdivision (e) by a limited liability
29 company on behalf of a nonresident member for whom an
30 agreement required by subdivision (e) is not attached to the return
31 of the limited liability company.

32 (3) The return required under paragraph (1) shall be filed on or
33 before the fifteenth day of the fourth month after the close of the
34 taxable year of the owner subject to tax under Part 10
35 (commencing with Section 17001) of Division 2 or on or before
36 the fifteenth day of the third month after the close of the taxable
37 year of the owner subject to tax under Chapter 2 (commencing
38 with Section 23101) of Part 11 of Division 2, whichever is
39 applicable.



(4) For limited liability companies disregarded pursuant to Section 23038, “taxable year of the owner” shall be substituted for “taxable year” in Sections 17941 and 17942.

SEC. 9. Section 19104 of the Revenue and Taxation Code is amended to read:

19104. (a) The Franchise Tax Board may abate all or any part of any of the following:

(1) Any interest on a deficiency or related to a proposed deficiency to the extent that interest is attributable in whole or in part to any unreasonable error or delay by an officer or employee of the Franchise Tax Board (acting in his or her official capacity) in performing a ministerial or managerial act.

(2) Any interest on a payment of any tax described in Section 19033 to the extent that any delay in that payment is attributable to an officer or employee of the Franchise Tax Board (acting in his or her official capacity) being dilatory in performing a ministerial or managerial act.

(3) Any interest accruing from a deficiency based on a final federal determination of tax, for the same period that interest was abated on the related federal deficiency amount under Section 6404(e) of the Internal Revenue Code, and the error or delay occurred on or before the issuance of the final federal determination. This subparagraph shall apply to any ministerial act for which the interest accrued after September 25, 1987, or for any managerial act applicable to a taxable year beginning on or after January 1, 1998, for which the Franchise Tax Board may propose an assessment or allow a claim for refund.

(b) For purposes of subdivision (a):

(1) Except as provided in paragraph (3), an error or delay shall be taken into account only if no significant aspect of that error or delay can be attributed to the taxpayer involved and after the Franchise Tax Board has contacted the taxpayer in writing with respect to that deficiency or payment.

(2) (A) Except as provided in paragraph (4), after the Franchise Tax Board mails its notice of determination not to abate interest, a taxpayer may appeal the Franchise Tax Board’s determination to the State Board of Equalization within the following periods:

(i) Thirty days in the case of any unpaid interest described under subdivision (a).

1 (ii) Ninety days in the case of any paid interest described under
2 subdivision (a).

3 (B) The State Board of Equalization shall have jurisdiction
4 over the appeal to determine whether the Franchise Tax Board's
5 failure to abate interest under this section was an abuse of
6 discretion, and may order an abatement.

7 (C) Except for clauses (i) and (ii) of subparagraph (A), the
8 provisions of this paragraph are operative for requests for
9 abatement of interest made on or after January 1, 1998. The
10 provisions of clauses (i) and (ii) of subparagraph (A) shall apply
11 to requests for abatement of interest made on or after January 1,
12 2001, in accordance with subdivision (d).

13 (3) If the Franchise Tax Board fails to mail its notice of
14 determination on a request to abate interest within six months after
15 the request is filed, the taxpayer may consider that the Franchise
16 Tax Board has determined not to abate interest and appeal that
17 determination to the board. This paragraph shall not apply to
18 requests for abatement of interest made pursuant to paragraph (4).

19 (4) A request for abatement of interest related to a proposed
20 deficiency may be made with the written protest of the underlying
21 proposed deficiency filed pursuant to Section 19041 or with an
22 appeal to the board under Section 19045 in the form and manner
23 required by the Franchise Tax Board. The action of the Franchise
24 Tax Board denying any portion of the request for abatement of
25 interest relating to the proposed deficiency shall be considered as
26 part of the appeal of the action of the Franchise Tax Board on the
27 protest of the proposed deficiency. If the taxpayer filed an appeal
28 from the Franchise Tax Board's action on the protest of a proposed
29 deficiency and the deficiency is final pursuant to Section 19048,
30 the taxpayer may not thereafter request an abatement of interest
31 accruing prior to the time the deficiency is final. However, the
32 taxpayer may thereafter request an abatement pursuant to this
33 section limited to interest accruing after the deficiency is final.

34 (c) The Franchise Tax Board shall abate the assessment of all
35 interest on any erroneous refund for which an action for recovery
36 is provided under Section 19411 until 30 days after the date
37 demand for repayment is made, unless either of the following has
38 occurred:

39 (1) The taxpayer (or a related party) has in any way caused that
40 erroneous refund.

(2) That erroneous refund exceeds fifty thousand dollars (\$50,000).

(d) The amendments made to this section by the act adding this subdivision shall apply to requests for abatement of interest and appeals made on or after January 1, 2001.

(e) Except as provided in subparagraph (C) of paragraph (2) of subdivision (b), the amendments made by Chapter 600 of the Statutes of 1997 are operative with respect to taxable years beginning on or after January 1, 1998.

SEC. 10. Section 19191 of the Revenue and Taxation Code is amended to read:

19191. (a) The Franchise Tax Board may enter into a voluntary disclosure agreement with any qualified entity, qualified shareholder, or qualified beneficiary as defined in Section 19192, that is binding on both the Franchise Tax Board and the qualified entity, qualified shareholder, or qualified beneficiary.

(b) The Franchise Tax Board shall do all of the following:

(1) Provide guidelines and establish procedures for qualified entities to apply for voluntary disclosure agreements.

(2) Accept applications on an anonymous basis from qualified entities for voluntary disclosure agreements.

(3) Implement procedures for accepting applications for voluntary disclosure agreements through the National Nexus Program administered by the Multistate Tax Commission.

(4) For purposes of considering offers from qualified entities to enter into voluntary disclosure agreements, take into account the following criteria:

(A) The nature and magnitude of the qualified entity's previous presence and activity in this state and the facts and circumstances by which the nexus of the qualified entity was established.

(B) The extent to which the weight of the factual circumstances demonstrates that a prudent business person exercising reasonable care would conclude that the previous activities and presence in this state were or were not immune from taxation by this state by reason of Public Law 86-272 or otherwise.

(C) Reliance on the advice of a person in a fiduciary position or other competent advice that the qualified entity's activities were immune from taxation by this state.

(D) Lack of evidence of willful disregard or neglect of the tax laws of this state on the part of the qualified entity.

1 (E) Demonstrations of good faith on the part of the qualified
2 entity.

3 (F) Benefits that will accrue to the state by entering into a
4 voluntary disclosure agreement.

5 (5) Act on any application of a voluntary disclosure agreement
6 within 120 days of receipt.

7 (6) Enter into voluntary disclosure agreements with qualified
8 entities, qualified shareholders, or qualified beneficiaries, as
9 authorized in subdivision (a) and based on the criteria set forth in
10 paragraph (4).

11 (c) Before any voluntary disclosure agreement becomes
12 binding, the Franchise Tax Board, itself, shall approve the
13 agreement in the following manner:

14 (1) The Executive Officer and Chief Counsel of the Franchise
15 Tax Board shall recommend and submit the voluntary disclosure
16 agreement to the Franchise Tax Board for approval.

17 (2) Each voluntary disclosure agreement recommendation
18 shall be submitted in a manner as to maintain the anonymity of the
19 taxpayer applying for the voluntary disclosure agreement.

20 (3) Any recommendation for approval of a voluntary
21 disclosure agreement shall be approved or disapproved by the
22 Franchise Tax Board, itself, within 45 days of the submission of
23 that recommendation to the board.

24 (4) Any recommendation of a voluntary disclosure agreement
25 that is not either approved or disapproved by the board within 45
26 days of the submission of that recommendation shall be deemed
27 approved.

28 (5) Disapproval of a recommendation of a voluntary disclosure
29 agreement shall be made only by a majority vote of the Franchise
30 Tax Board.

31 (6) The members of the Franchise Tax Board shall not
32 participate in any voluntary disclosure agreement except as
33 provided in this subdivision.

34 (d) The voluntary disclosure agreement entered into by the
35 Franchise Tax Board and the qualified entity, qualified
36 shareholder, or qualified beneficiary as provided for in subdivision
37 (a) shall to the extent applicable specify that:

38 (1) The Franchise Tax Board shall with respect to a qualified
39 entity, qualified shareholder, or qualified beneficiary, except as



provided in paragraph (4) or (7) of subdivision (a) of Section 19192:

(A) Waive its authority under this part, Part 10 (commencing with Section 17001), or Part 11 (commencing with Section 23001) to assess or propose to assess taxes, additions to tax, fees, or penalties with respect to each taxable year ending prior to six years from the signing date of the voluntary disclosure agreement.

(B) With respect to each of the six taxable years ending immediately preceding the signing date of the voluntary disclosure agreement, based on its discretion, agree to waive any or all of the following:

(i) Any penalty related to a failure to make and file a return, as provided in Section 19131.

(ii) Any penalty related to a failure to pay any amount due by the date prescribed for payment, as provided in Section 19132.

(iii) Any addition to tax related to an underpayment of estimated tax, as provided in Section 19136.

(iv) Any penalty related to Section 6810 or subdivision (a) of Section 8810 of the Corporations Code, as provided in Section 19141.

(v) Any penalty related to a failure to furnish information or maintain records, as provided in Section 19141.5.

(vi) Any addition to tax related to an underpayment of tax imposed under Part 11 (commencing with Section 23001), as provided in Section 19142.

(vii) Any penalty related to a partnership required to file a return under Section 18633, as provided in Section 19172.

(viii) Any penalty related to a failure to file information returns, as provided in Section 19183.

(ix) Any penalty related to relief from contract voidability, as provided in Section 23305.1.

(2) The qualified entity, qualified shareholder, or qualified beneficiary shall:

(A) With respect to each of the six taxable years ending immediately preceding the signing date of the written agreement:

(i) Voluntarily and fully disclose on the qualified entity's application all material facts pertinent to the qualified entity's, shareholder's, or beneficiary's liability for any taxes imposed under Part 10 (commencing with Section 17001) or Part 11 (commencing with Section 23001).

(ii) Except as provided in paragraph (3), within 30 days from the signing date of the voluntary disclosure agreement:

(I) File all returns required under this part, Part 10 (commencing with Section 17001), or Part 11 (commencing with Section 23001).

(II) Pay in full any tax, interest, and penalties (other than those penalties specifically waived by the Franchise Tax Board under the terms of the voluntary disclosure agreement) imposed under this part, Part 10 (commencing with Section 17001), or Part 11 (commencing with Section 23001) in a manner as may be prescribed by the Franchise Tax Board.

(B) Agree to comply with all franchise and income tax laws of this state in subsequent taxable years by filing all returns required and paying all amounts due under this part, Part 10 (commencing with Section 17001), or Part 11 (commencing with Section 23001).

(3) The Franchise Tax Board may extend the time for filing returns and paying amounts due to 120 days from the signing date of the voluntary disclosure agreement.

(e) The amendments to this section made by Chapter 954 of the Statutes of 1996 shall apply to taxable years beginning on or after January 1, 1997.

(f) The amendments to this section made by the act adding this subdivision shall apply to voluntary disclosure agreements entered into on or after January 1, 2002.

SEC. 11. Section 19192 of the Revenue and Taxation Code is amended to read:

19192. For purposes of this article:

(a) (1) “Qualified entity” means an entity that is all of the following:

(A) A corporation, as defined in Section 23038, or a qualified trust, as defined in paragraph (5).

(B) An entity, including any predecessors to the entity, that previously has never filed a return with the Franchise Tax Board pursuant to this part, Part 10 (commencing with Section 17001), or Part 11 (commencing with Section 23011).

(C) An entity, including any predecessors to the entity, that previously has not been the subject of an inquiry by the Franchise Tax Board with respect to liability for any of the taxes imposed

1 under Part 10 (commencing with Section 17001) or Part 11
2 (commencing with Section 23001).

3 (D) An entity that voluntarily comes forward prior to any
4 unilateral contact from the Franchise Tax Board, makes
5 application for a voluntary disclosure agreement in a form and
6 manner prescribed by the Franchise Tax Board, and makes a full
7 and accurate statement of its activities in this state for the six
8 immediately preceding taxable years.

9 (2) (A) Notwithstanding paragraph (1), a qualified entity does
10 not include any of the following:

11 (i) A corporation that is organized and existing under the laws
12 of this state.

13 (ii) A corporation that is qualified or registered with the office
14 of the Secretary of State.

15 (iii) An entity that maintains and staffs a permanent facility in
16 this state.

17 (B) For purposes of this paragraph, the storing of materials,
18 goods, or products in a public warehouse pursuant to a public
19 warehouse contract does not constitute maintaining a permanent
20 facility in this state.

21 (3) “Qualified shareholder” means an individual that is all of
22 the following:

23 (A) A nonresident on the signing date of the voluntary
24 disclosure agreement.

25 (B) A shareholder of an S corporation (defined in Section
26 23800) that has applied for a voluntary disclosure agreement under
27 this article under which all material facts pertinent to the
28 shareholder’s liability would be disclosed on that S corporation’s
29 voluntary disclosure agreement as required under clause (i) of
30 subparagraph (A) of paragraph (2) of subdivision (d) of Section
31 19191.

32 (4) Notwithstanding paragraph (3), subparagraph (B) of
33 paragraph (1) of subdivision (d) of Section 19191 shall not apply
34 to any of the six taxable years immediately preceding the signing
35 date that the qualified shareholder was a California resident
36 required to file a California tax return, nor to any penalties or
37 additions to tax attributable to income other than the California
38 source income from the S corporation that filed an application
39 under this article.

1 (5) “Qualified trust” means a trust that meets both of the
2 following:

3 (A) (i) The administration of the trust has never been
4 performed in California.

5 (ii) For purposes of this subparagraph, administrative activities
6 performed in California would be deemed to be performed outside
7 of California if those activities were inconsequential to the overall
8 administration of the trust.

9 (B) For six taxable years ending immediately preceding the
10 signing date of the voluntary disclosure agreement, the trust has
11 had no resident beneficiaries (other than a beneficiary whose
12 interest in that trust is contingent).

13 (6) “Qualified beneficiary” means an individual who is all of
14 the following:

15 (A) A nonresident on the signing date of the voluntary
16 disclosure agreement and a nonresident during each of the six
17 taxable years ending immediately preceding the signing date of the
18 voluntary disclosure agreement.

19 (B) A beneficiary of a qualified trust that has applied for a
20 voluntary disclosure agreement under this article under which all
21 material facts pertinent to the beneficiary’s liability would be
22 disclosed on that trust’s voluntary disclosure agreement as
23 required under clause (i) of subparagraph (A) of paragraph (2) of
24 subdivision (d) of Section 19191.

25 (7) Notwithstanding paragraph (6), subparagraph (B) of
26 paragraph (1) of subdivision (d) of Section 19191 shall not apply
27 to any penalties or additions to tax attributable to income other
28 than income from the trust that filed an application under this
29 article.

30 (b) “Signing date” of the voluntary disclosure agreement
31 means the date on which a person duly authorized by the Franchise
32 Tax Board signs the agreement.

33 (c) The amendments to this section made by Chapter 954 of the
34 Statutes of 1996 shall apply to taxable years beginning on or after
35 January 1, 1997.

36 (d) The amendments to this section made by the act adding this
37 subdivision shall apply to voluntary disclosure agreements entered
38 into on or after January 1, 2002.

39 SEC. 12. Section 19306 of the Revenue and Taxation Code is
40 amended to read:

19306. (a) No credit or refund shall be allowed or made after a period ending four years from the date the return was filed (if filed within the time prescribed by Section 18567 or 18604, whichever is applicable), four years from the last day prescribed for filing the return (determined without regard to any extension of time for filing the return), or after one year from the date of the overpayment, whichever period expires later, unless before the expiration of that period a claim therefor is filed by the taxpayer, or unless before the expiration of that period the Franchise Tax Board allows a credit, makes a refund, or mails a notice of proposed overpayment on a preprinted form prescribed by the Franchise Tax Board.

(b) The amendments to this section by the act adding this subdivision shall be applied to all claims and refunds, without regard to taxable year, for which the statute of limitations has not expired on the date that this act takes effect.

SEC. 13. Section 19311 of the Revenue and Taxation Code is amended to read:

19311. (a) (1) If a change or correction is made or allowed by the Commissioner of Internal Revenue or other officer of the United States or other competent authority, a claim for credit or refund resulting from the adjustment may be filed by the taxpayer within two years from the date of the final federal determination (as defined in Section 18622), or within the period provided in Section 19306, 19307, or 19308, whichever period expires later.

(2) Within two years of the date of the final determination (as defined in Section 18622) or within the period provided in Section 19306, 19307, or 19308, whichever period expires later, the Franchise Tax Board may allow a credit, make a refund, or mail to the taxpayer a notice of proposed overpayment resulting from the final federal determination.

(b) (1) Except as provided in paragraph (2), this section shall apply to any federal determination that becomes final on or after January 1, 1993.

(2) The amendments made by the act adding this paragraph shall apply, without regard to taxable year, to federal determinations that become final on or after the effective date of the act adding this paragraph.

SEC. 14. Section 19378 of the Revenue and Taxation Code is amended to read:

1 19378. (a) The Franchise Tax Board shall determine the
2 amount of the contracting costs incurred under Section 19377 and
3 notify the Controller of that amount which shall be transferred
4 from the Personal Income Tax Fund or the Corporation Tax Fund
5 to the Delinquent Tax Collection Fund, which is hereby created.

6 (b) The Controller shall transfer that amount determined
7 pursuant to subdivision (a) from the Delinquent Tax Collection
8 Fund to the Franchise Tax Board for reimbursement of its
9 contracting costs. The moneys remaining in the Delinquent Tax
10 Collection Fund after disbursements shall be transferred to the
11 Personal Income Tax Fund or the Corporation Tax Fund by the
12 Controller upon notification by the Franchise Tax Board.
13 Notwithstanding Section 13340 of the Government Code, the
14 moneys transferred pursuant to this section are hereby
15 continuously appropriated, without regard to fiscal years.

16 (c) The funds generated through this section shall not be used
17 in place of funds from other sources that are available for
18 appropriation to the Franchise Tax Board.

19 (d) This section shall become operative on July 1, 1993.

20 SEC. 15. Section 19443 of the Revenue and Taxation Code is
21 amended to read:

22 19443. (a) (1) The Executive Officer and Chief Counsel of
23 the Franchise Tax Board, jointly, or their delegates, may
24 compromise any final tax liability in which the reduction of tax is
25 seven thousand five hundred dollars (\$7,500) or less.

26 (2) Except as provided in paragraph (3), the Franchise Tax
27 Board, upon recommendation by its executive officer and chief
28 counsel, jointly, may compromise a final tax liability involving a
29 reduction in tax in excess of seven thousand five hundred dollars
30 (\$7,500). Any recommendation for approval of an offer in
31 compromise that is not either approved or disapproved by the
32 Franchise Tax Board, itself, within 45 days of the submission of
33 the recommendation shall be deemed approved.

34 (3) The Franchise Tax Board, itself, may by resolution delegate
35 to the executive officer and the chief counsel, jointly, the authority
36 to compromise a final tax liability in which the reduction of tax is
37 in excess of seven thousand five hundred dollars (\$7,500) but less
38 than ten thousand dollars (\$10,000).

39 (b) For purposes of this section, “a final tax liability” means
40 any final tax liability arising under Part 10 (commencing with

1 Section 17001) or Part 11 (commencing with Section 23001) or
2 related interest, additions to tax, penalties, or other amounts
3 assessed under this part.

4 (c) For an amount to be compromised under this section, the
5 following conditions shall exist:

6 (1) The taxpayer shall establish that the:

7 (A) Amount offered in payment is the most that can be
8 expected to be paid or collected from the taxpayer's present assets
9 or income, and

10 (B) Taxpayer does not have reasonable prospects of acquiring
11 increased income or assets that would enable the taxpayer to
12 satisfy a greater amount of the liability than the amount offered,
13 within a reasonable period of time.

14 (2) The Franchise Tax Board shall have determined that
15 acceptance of the compromise is in the best interest of the state.

16 (d) A determination by the Franchise Tax Board that it would
17 not be in the best interest of the state to accept an offer in
18 compromise in satisfaction of a final tax liability shall not be
19 subject to administrative appeal or judicial review.

20 (e) When an offer in compromise is either accepted or rejected,
21 or the terms and conditions of a compromise agreement are
22 fulfilled, the Franchise Tax Board shall notify the taxpayer in
23 writing.

24 (f) In the case of a joint and several liability, the acceptance of
25 an offer in compromise from one liable spouse shall not relieve the
26 other spouse from paying the entire liability. However, the amount
27 of the liability shall be reduced by the amount of the accepted offer.

28 (g) Whenever a compromise of tax or penalties or total tax and
29 penalties in excess of five hundred dollars (\$500) is approved,
30 there shall be placed on file for at least one year in the office of the
31 Executive Officer of the Franchise Tax Board a public record with
32 respect to that compromise. The public record shall include all of
33 the following information:

34 (1) The name of the taxpayer.

35 (2) The amount of unpaid tax, and related penalties, additions
36 to tax, interest, or other amounts involved.

37 (3) The amount offered.

38 (4) A summary of the reason why the compromise is in the best
39 interest of the state.

1 The public record shall not include any information that relates
2 to any trade secret, patent, process, style of work, apparatus,
3 business secret, or organizational structure, that if disclosed,
4 would adversely affect the taxpayer or the national defense. No list
5 shall be prepared and no releases distributed by the Franchise Tax
6 Board in connection with these statements.

7 (h) Any compromise made under this section may be
8 rescinded, all compromised liabilities may be reestablished
9 (without regard to any statute of limitations that otherwise may be
10 applicable), and no portion of the amount offered in compromise
11 refunded, if either of the following occurs:

12 (1) The Franchise Tax Board determines that any person did
13 any of the following acts regarding the making of the offer:

14 (A) Concealed from the Franchise Tax Board any property
15 belonging to the estate of any taxpayer or other person liable for
16 the tax.

17 (B) Received, withheld, destroyed, mutilated, or falsified any
18 book, document, or record or made any false statement, relating
19 to the estate or financial condition of the taxpayer or other person
20 liable for the tax.

21 (2) The taxpayer fails to either:

22 (A) Comply with any of the terms and conditions relative to the
23 offer.

24 (B) File subsequent required returns and pay subsequent final
25 tax liabilities within 20 days after the Franchise Tax Board issues
26 notice and demand to the person stating that the continued failure
27 to file or pay the tax may result in rescission of the compromise.

28 (i) This section shall become operative on the effective date of
29 the act adding this section without regard to the taxable year at
30 issue.

31 SEC. 16. Section 19604 of the Revenue and Taxation Code is
32 amended to read:

33 19604. (a) Except for fees received for services under
34 Section 23305e, all moneys and remittances received by the
35 Franchise Tax Board as amounts imposed under Part 11
36 (commencing with Section 23001), and related penalties,
37 additions to tax, fees, and interest imposed under this part, shall be
38 deposited in a special fund in the State Treasury, to be designated
39 the Corporation Tax Fund. The moneys in the fund shall, upon the
40 order of the Controller, be drawn therefrom for the purpose of

making refunds under this part or be transferred into the General Fund. All undelivered refund warrants shall be redeposited into the Corporation Tax Fund upon receipt by the Controller. Fees received for services under Section 23305e shall be treated as reimbursement of the Franchise Tax Board's costs and shall be deposited into the General Fund.

(b) Notwithstanding Section 13340 of the Government Code, all moneys in the Corporation Tax Fund are hereby continuously appropriated, without regard to fiscal year, to the Franchise Tax Board for purposes of making all payments as provided in this section.

SEC. 17. Section 19607 of the Revenue and Taxation Code is amended to read:

19607. All moneys and remittances received by the Franchise Tax Board as amounts imposed under Sections 17935, 17941, and 17948 and related penalties, additions to tax, interest, and other related amounts imposed under this part, shall be deposited, after clearance of remittances, in the State Treasury and credited to the Corporation Tax Fund.

SEC. 18. Section 19705 of the Revenue and Taxation Code is amended to read:

19705. (a) Any person who does any of the following shall be guilty of a felony and, upon conviction, shall be fined not more than fifty thousand dollars (\$50,000) or imprisoned not more than three years, or both, together with the costs of investigation and prosecution:

(1) Willfully makes and subscribes any return, statement, or other document, that contains or is verified by a written declaration that it is made under penalty of perjury, and he or she does not believe to be true and correct as to every material matter.

(2) Willfully aids or assists in, or procures, counsels, or advises the preparation or presentation under, or in connection with any matter arising under, the Personal Income Tax Law or the Corporation Tax Law, of a return, affidavit, claim, or other document, that is fraudulent or is false as to any material matter, whether or not that falsity or fraud is with the knowledge or consent of the person authorized or required to present that return, affidavit, claim, or document.

(3) Simulates or falsely or fraudulently executes or signs any bond, permit, entry, or other document required by the provisions

1 of the Personal Income Tax Law or the Corporation Tax Law, or
2 by any regulation pursuant to that law, or procures the same to be
3 falsely or fraudulently executed or advises, aids in, or connives at
4 that execution.

5 (4) Removes, deposits, or conceals, or is concerned in
6 removing, depositing, or concealing, any goods or commodities
7 for or in respect whereof any tax is or shall be imposed, or any
8 property upon which levy is authorized by Chapter 5
9 (commencing with Section 19201); or Chapter 8 (commencing
10 with Section 688.010) of Division 1 of, and Chapter 5
11 (commencing with Section 706.010) of Division 2 of, Title 9 of the
12 Code of Civil Procedure, with intent to evade or defeat the
13 assessment or collection of any tax, additions to tax, penalty, or
14 interest imposed by Part 10 (commencing with Section 17001),
15 Part 11 (commencing with Section 23001), or this part.

16 (5) In connection with any settlement under Section 19442, or
17 offer of that settlement, or in connection with any closing
18 agreement under Section 19441 or offer to enter into that
19 agreement, or compromise under Section 19443, or offer of that
20 compromise, willfully does any of the following:

21 (A) Conceals from any officer or employee of this state any
22 property belonging to the estate of a taxpayer or other person liable
23 in respect of the tax.

24 (B) Receives, withholds, destroys, mutilates, or falsifies any
25 book, document, or record, or makes any false statement, relating
26 to the estate or financial condition of the taxpayer or other person
27 liable in respect of the tax.

28 (b) In the case of a corporation, the fifty thousand dollars
29 (\$50,000) limitation specified in subdivision (a) shall be increased
30 to two hundred thousand dollars (\$200,000).

31 (c) The fact that an individual's name is signed to a return,
32 statement, or other document filed, including a return, statement,
33 or other document filed using electronic technology pursuant to
34 Section 18621.5, shall be prima facie evidence for all purposes that
35 the return, statement, or other document was actually signed by
36 him or her.

37 (d) For purposes of this section, "person" means the taxpayer,
38 any member of the taxpayer's family, any corporation, agent,
39 fiduciary, or representative of, or any other individual or entity
40 acting on behalf of, the taxpayer, or any other corporation or entity

1 owned or controlled by the taxpayer, directly or indirectly, or
2 which owns or controls the taxpayer, directly or indirectly.

3 (e) The changes made to this section by the act adding this
4 subdivision apply to offers made on or after January 1, 1999.

5 SEC. 19. Section 21006 of the Revenue and Taxation Code is
6 amended to read:

7 21006. (a) The board shall perform annually a systematic
8 identification of areas of recurrent taxpayer noncompliance and
9 shall report its findings to the Legislature on October 1 of each
10 year.

11 (b) As part of the identification process described in
12 subdivision (a), the board shall do both of the following:

13 (1) Compile and analyze sample data from its audit process,
14 including, but not limited to, all of the following:

15 (A) The statute or regulation violated by the taxpayer.

16 (B) The amount of tax involved.

17 (C) The industry or business engaged in by the taxpayer.

18 (D) The number of years covered in the audit period.

19 (E) Whether professional tax preparation assistance was
20 utilized by the taxpayer.

21 (F) Whether income tax or bank and corporation tax returns
22 were filed by the taxpayer.

23 (2) Conduct an annual hearing before the board itself where
24 industry representatives and individual taxpayers are allowed to
25 present their proposals on changes to the Personal Income Tax Law
26 or the Corporation Tax Law which may further facilitate
27 achievement of the legislative findings.

28 (c) The board shall include in its report recommendations for
29 improving taxpayer compliance and uniform administration,
30 including, but not limited to, all of the following:

31 (1) Changes in statute or board regulations.

32 (2) Improvement of training of board personnel.

33 (3) Improvement of taxpayer communication and education.

34 (4) Increased enforcement capabilities.

35 SEC. 20. Section 21027 of the Revenue and Taxation Code is
36 amended to read:

37 21027. (a) (1) For purposes of Part 10 (commencing with
38 Section 17001), Part 10.2 (commencing with Section 18401), Part
39 11 (commencing with Section 23001), or this part or any other law
40 that is applicable to the mailing of any returns, payments, or any

1 other items required to be filed under Part 10 (commencing with
2 Section 17001), Part 10.2 (commencing with Section 18401), Part
3 11 (commencing with Section 23001), or this part, any reference
4 in Section 11003 of the Government Code to the United States mail
5 shall be treated as including a reference to any designated delivery
6 service, and any reference in that section to a post office
7 cancellation mark shall be treated as including a reference to any
8 date recorded electronically by a designated delivery service, kept
9 in the regular course of the designated delivery service's business,
10 or marks on the cover in which any item is to be delivered to the
11 board that indicate the date on which the item was given to the
12 designated delivery service for delivery.

13 (2) For purposes of this section, "designated delivery service"
14 means any delivery service provided by a trade or business if that
15 service is designated by the Secretary of the Treasury under the
16 authority of Section 7502(f) of the Internal Revenue Code, as
17 amended by Public Law 104-168.

18 (b) As revised by Treasury Decision 8932, January 10, 2001,
19 regulations of the Secretary of the Treasury under the authority of
20 Section 7502(c)(2) of the Internal Revenue Code (relating to prima
21 facie evidence of delivery and postmark date for electronic filing)
22 shall be applicable for prima facie evidence of delivery and the
23 postmark date for purposes of Part 10 (commencing with Section
24 17001), Part 10.2 (commencing with Section 18401), Part 11
25 (commencing with Section 23001), this part, or Section 11003 of
26 the Government Code.

27 SEC. 21. The heading of Part 11 (commencing with Section
28 23001) of Division 2 of the Revenue and Taxation Code is
29 amended to read:

30

31 PART 11. CORPORATION TAX LAW

32

33 SEC. 22. Section 23001 of the Revenue and Taxation Code is
34 amended to read:

35 23001. This part is known and may be cited as the Corporation
36 Tax Law.

37 SEC. 23. Section 23040.1 of the Revenue and Taxation Code
38 is amended to read:



23040.1. (a) Notwithstanding Sections 23040 and 25101, income derived from or attributable to sources within this state shall not include:

(1) The distributive share of interest, dividends, and gains from the sale or exchange of qualifying investment securities derived by a corporation that is a partner in a partnership that qualifies as an investment partnership under Section 17955, whether or not the partnership has a usual place of business in this state, if the income from the partnership is the corporation's only income derived from or attributable to sources within this state.

(2) Income, gain, or loss from stocks or securities received by an alien corporation whose sole activities in this state involve trading in those stocks or securities for the corporation's own account within the meaning of Section 864(b)(2)(A)(ii) of the Internal Revenue Code, whether the trading is done by the corporation or its employees or through a resident broker, commission agent, custodian, or other agent, and whether or not any employee or agent has discretionary authority to make decisions in effecting the transactions. This paragraph does not apply to a dealer in stocks or securities.

(b) (1) Paragraph (1) of subdivision (a) shall not apply to a corporation that participates in the management of the investment activities of the investment partnership or that is engaged in a unitary business with another corporation or partnership that participates in the management of the investment activities of the partnership or has income derived from or attributable to sources within this state other than income described in paragraph (1) of subdivision (a).

(2) Paragraph (2) of subdivision (a) does not apply to an alien corporation that itself has, or that is engaged in a unitary business with another corporation that has, income derived from or attributable to sources within this state other than income described in paragraph (2) of subdivision (a).

(c) An alien corporation (other than a dealer in stocks or securities) trading in stocks or securities for its own account, as described in paragraph (2) of subdivision (a), is not doing business in this state for purposes of Chapter 2 of this part.

(d) For purposes of this section:

(1) “Alien corporation” means a corporation organized under the laws of a country, or any political subdivision thereof, other than the United States.

(2) “Dealer in stocks or securities” means a dealer in stocks or securities for purposes of Section 864(b)(2)(A)(ii) of the Internal Revenue Code.

(3) “Investment partnership” means a partnership that meets both of the following requirements:

(A) No less than 90 percent of the partnership’s cost of its total assets consist of qualifying investment securities, deposits at banks or other financial institutions, and office space and equipment reasonably necessary to carry on its activities as an investment partnership.

(B) No less than 90 percent of its gross income consists of interest, dividends, and gains from the sale or exchange of qualifying investment securities.

(4) (A) “Qualifying investment securities” include all of the following:

(i) Common stock, including preferred or debt securities convertible into common stock, and preferred stock.

(ii) Bonds, debentures, and other debt securities.

(iii) Foreign and domestic currency deposits or equivalents and securities convertible into foreign securities.

(iv) Mortgage- or asset-backed securities secured by federal, state, or local governmental agencies.

(v) Repurchase agreements and loan participations.

(vi) Foreign currency exchange contracts and forward and futures contracts on foreign currencies.

(vii) Stock and bond index securities and futures contracts, and other similar financial securities and futures contracts on those securities.

(viii) Options for the purchase or sale of any of the securities, currencies, contracts, or financial instruments described in clauses (i) to (vii), inclusive.

(ix) Regulated futures contracts.

(B) “Qualifying investment securities” does not include an interest in a partnership unless that partnership is itself an investment partnership.

1 (5) “Stocks or securities” has the same meaning as applies to
2 that phrase as used in Section 864(b)(2)(A)(ii) of the Internal
3 Revenue Code.

4 (e) The amendments made to this section by the act adding this
5 subdivision shall apply to taxable years beginning on or after
6 January 1, 1999.

7 SEC. 24. Section 23051.7 of the Revenue and Taxation Code
8 is amended to read:

9 23051.7. (a) The enactment of the act adding this section to
10 the code shall not deprive any taxpayer of any carryover of a credit,
11 excess contribution, or loss to which that taxpayer was entitled
12 under this part, including all amendments enacted prior to January
13 1, 1987.

14 (b) The carryover of the credit, excess contribution, or loss
15 shall be allowed to be carried forward under the act adding this
16 section to the code for the same period of time as the taxpayer
17 would have been entitled to carry that item forward under prior
18 law.

19 (c) For purposes of applying the provisions of the act adding
20 this section to the code, the basis or recomputed basis of any asset
21 acquired prior to January 1, 1987, shall be determined under the
22 law at the time the asset was acquired and any adjustments to basis
23 shall be computed as follows:

24 (1) Any adjustments to basis for income years beginning prior
25 to January 1, 1987, shall be computed under applicable provisions
26 of this part, including all amendments enacted prior to January 1,
27 1987; and

28 (2) Any adjustments to basis for taxable years beginning on or
29 after January 1, 1987, shall be computed under the applicable
30 provisions of the act adding this section to the code.

31 (d) For income years beginning on or after January 1, 1987, and
32 before January 1, 1988, references in this part to “alternative
33 minimum tax” shall be deemed to be references to the “tax on
34 preference income.”

35 SEC. 25. Section 23055 of the Revenue and Taxation Code is
36 amended to read:

37 23055. Any provision of this part which refers to the
38 application of any portion of this part to a prior period (or which
39 depends upon the application to a prior period of any portion of this
40 part) shall, when appropriate and consistent with the purpose of

1 such provision, be deemed to refer to (or depend upon the
2 application of) the corresponding provision of Part 11 of Division
3 2 of the Revenue and Taxation Code or of any other corporation
4 tax laws as were applicable to the prior period.

5 SEC. 26. The heading of Chapter 2 (commencing with
6 Section 23101) of Part 11 of Division 2 of the Revenue and
7 Taxation Code is amended to read:

8
9 CHAPTER 2. THE CORPORATION FRANCHISE TAX

10
11 SEC. 27. Section 23182 of the Revenue and Taxation Code is
12 amended to read:

13 23182. The tax imposed under this part upon banks and
14 financial corporations is in lieu of all other taxes and licenses,
15 state, county and municipal, upon the said banks and financial
16 corporations except taxes upon their real property, local utility user
17 taxes, sales and use taxes, state energy resources surcharge, state
18 emergency telephone users surcharge, and motor vehicle and other
19 vehicle registration license fees and any other tax or license fee
20 imposed by the state upon vehicles, motor vehicles or the operation
21 thereof.

22 The changes in this section made by the 1979–80 Legislature
23 with respect to sales and use taxes apply to taxable years beginning
24 on and after January 1, 1980, and the remaining changes apply to
25 taxable years beginning on and after January 1, 1981.

26 SEC. 28. Section 23608.2 of the Revenue and Taxation Code
27 is amended to read:

28 23608.2. (a) For taxable years beginning on or after January
29 1, 1997, there shall be allowed as a credit against the “tax,” as
30 defined by Section 23036, an amount, subject to Section 42(h)(1)
31 of the Internal Revenue Code, that is otherwise equal to the lesser
32 of 50 percent of the eligible costs, as determined under subdivision
33 (b), or the amount allocated under paragraph (2) of subdivision (e).

34 (b) (1) For purposes of this section, the “eligible costs” shall
35 be equal to the total finance costs, construction costs, excavation
36 costs, installation costs, and permit costs paid or incurred to
37 construct or rehabilitate farmworker housing. “Eligible costs”
38 include, but are not limited to, improvements to ensure compliance
39 with laws governing access for persons with disabilities and costs

1 related to reducing utility expenses. Noneligible costs include land
2 and those costs financed by grants and below-market financing.

3 (2) For purposes of paragraph (1), construction or
4 rehabilitation of the farmworker housing shall have commenced
5 on or after January 1, 1997.

6 (3) Notwithstanding any provision of this part, eligible costs
7 shall not include any costs paid or incurred prior to January 1,
8 1997.

9 (c) Notwithstanding any other provision of this part, no credit
10 shall be allowed under this section unless the taxpayer first obtains
11 a certification from the committee that the amounts described in
12 subdivision (b) qualify for the credit under this section and the total
13 amount of the credit allocated to the taxpayer pursuant to the
14 Farmworker Housing Assistance Program.

15 (d) The taxpayer shall do all of the following:

16 (1) Apply to the committee for credit certification.

17 (2) Retain a copy of the certification.

18 (3) Make the certification available to the Franchise Tax Board
19 upon request.

20 (e) The committee shall do all of the following:

21 (1) Provide forms and instructions for applications for credit
22 certification, as specified pursuant to the Farmworker Housing
23 Assistance Program.

24 (2) Accept applications and issue a certificate to the taxpayer
25 that includes a certification as to the eligible costs described in
26 subdivision (b) that qualify for the credit and the total amount of
27 the credit to which the taxpayer is entitled for the taxable year.
28 Credit in excess of the amount necessary to make the project
29 feasible shall not be allocated. Credits shall be allocated through
30 a minimum of one competitive funding round per year.

31 (3) Obtain the taxpayer's taxpayer identification number, or
32 each shareholder's taxpayer identification number in the case of an
33 S corporation, for tax administration purposes.

34 (4) Provide an annual listing to the Franchise Tax Board, in the
35 form and manner agreed upon by the Franchise Tax Board and the
36 committee, containing the names, taxpayer identification numbers
37 pursuant to paragraph (3), eligible costs, and total amount of credit
38 certified to each taxpayer.

39 (f) For purposes of this section:

(1) “Compliance period” means, with respect to any farmworker housing, the period of 30 consecutive taxable years, beginning with the taxable year in which the credit is allowable.

(2) “Construct or rehabilitate” includes reconstruction, but does not include any costs related to acquisition or refinancing of property or structures thereon.

(3) “Farmworker Housing Assistance Program” means Chapter 3.7 (commencing with Section 50199.50) of Part 1 of Division 31 of the Health and Safety Code.

(4) “Qualified farmworker housing” means housing located within this state which satisfies the requirements of the Farmworker Housing Assistance Program. The housing may be vacant or occupied, and it need not be licensed pursuant to the Employee Housing Act at the time of the initiation of construction or rehabilitation.

(5) “Committee” means the California Tax Credit Allocation Committee as defined in Section 50199.7 of the Health and Safety Code.

(6) “Qualified accountant” means an accountant licensed or certified in this state who is neither an employee of the taxpayer, nor related to the taxpayer within the meaning of Section 267 of the Internal Revenue Code.

(g) No deduction or other credit shall be allowed under this part or Part 10 (commencing with Section 17001) to the extent of any eligible costs, as defined in subdivision (b), that are taken into account in computing the credit allowed under this section.

(h) The farmworker housing tax credit shall not be allowed unless the taxpayer:

(1) Constructs or rehabilitates the property subject to the covenants, conditions, and restrictions imposed by this section and pursuant to the Farmworker Housing Assistance Program, which shall include, but not necessarily be limited to, a requirement that the taxpayer obtain, for approval by the committee, a construction cost audit and certification of eligible costs from a qualified accountant.

(2) Subsequent to construction or rehabilitation of the farmworker housing, owns or operates the farmworker housing pursuant to the requirements of this section, or ensures the ownership and operation of the farmworker housing pursuant to the requirements of this section.

1 (i) The requirements of this section shall be set forth in a written
2 agreement between the committee and the taxpayer. The
3 agreement shall include, but not necessarily be limited to, the
4 requirements set forth in the Farmworker Housing Assistance
5 Program.

6 (j) In the case where the credit allowed by this section exceeds
7 the “tax,” the excess may be carried over to reduce the “tax” in
8 the following year, and succeeding years if necessary, until the
9 credit has been exhausted.

10 (k) (1) In the case of any disqualifying event, as defined in
11 paragraph (2), there shall be added to the “tax,” as defined in
12 Section 23036, for the taxable year in which the disqualifying
13 event occurs, the recapture amount computed under paragraph (3)
14 and the interest amount computed under paragraph (4).

15 (2) For purposes of this subdivision, “disqualifying event”
16 shall mean:

17 (A) The committee determines that the certification provided
18 under subdivision (e) was obtained by fraud or misrepresentation.

19 (B) The taxpayer fails to comply with the requirements of the
20 Farmworker Housing Assistance Program, or any other
21 requirement imposed under this section.

22 (3) For purposes of this subdivision, “recapture amount”
23 means:

24 (A) In the case of any disqualifying event described in
25 subparagraph (A) of paragraph (2), the entire amount of any credit
26 previously allowed under this section.

27 (B) In the case of any disqualifying event described in
28 subparagraph (B) of paragraph (2), an amount determined by
29 multiplying the entire amount of the credit previously allowed
30 under this section by a fraction, the numerator of which is the
31 number of years remaining in the compliance period and the
32 denominator of which is 30.

33 (4) For purposes of this subdivision, “interest amount” means:

34 (A) In the case of any disqualifying event described in
35 subparagraph (A) of paragraph (2), the amount of interest
36 computed using the adjusted annual rate established in Section
37 19521 from the due date of the return for each taxable year in
38 which the credit was claimed to the date of payment of the
39 additional tax resulting from the application of this subdivision.

(B) In the case of any disqualifying event described in subparagraph (B) of paragraph (2), zero.

(I) The annual amount of credit granted pursuant to this section and Sections 17053.14 and 23608.3 shall not exceed five hundred thousand dollars (\$500,000), provided that the aggregate amount of the credit granted pursuant to this section and Sections 17053.14 and 23608.3 for the calendar year 1998 and thereafter may exceed five hundred thousand dollars (\$500,000) per calendar year by an amount equal to any unallocated credits under this section and Sections 17053.14 and 23608.3 for the preceding calendar year or years.

SEC. 29. Section 23609 of the Revenue and Taxation Code is amended to read:

23609. For each taxable year beginning on or after January 1, 1987, there shall be allowed as a credit against the “tax” (as defined by Section 23036) an amount determined in accordance with Section 41 of the Internal Revenue Code, except as follows:

(a) For each taxable year beginning before January 1, 1997, both of the following modifications shall apply:

(1) The reference to “20 percent” in Section 41(a)(1) of the Internal Revenue Code is modified to read “8 percent.”

(2) The reference to “20 percent” in Section 41(a)(2) of the Internal Revenue Code is modified to read “12 percent.”

(b) (1) For each taxable year beginning on or after January 1, 1997, and before January 1, 1999, both of the following modifications shall apply:

(A) The reference to “20 percent” in Section 41(a)(1) of the Internal Revenue Code is modified to read “11 percent.”

(B) The reference to “20 percent” in Section 41(a)(2) of the Internal Revenue Code is modified to read “24 percent.”

(2) For each taxable year beginning on or after January 1, 1999, and before January 1, 2000, both of the following shall apply:

(A) The reference to “20 percent” in Section 41(a)(1) of the Internal Revenue Code is modified to read “12 percent.”

(B) The reference to “20 percent” in Section 41(a)(2) of the Internal Revenue Code is modified to read “24 percent.”

(3) For each taxable year beginning on or after January 1, 2000, both of the following shall apply:

(A) The reference to “20 percent” in Section 41(a)(1) of the Internal Revenue Code is modified to read “15 percent.”

(B) The reference to “20 percent” in Section 41(a)(2) of the Internal Revenue Code is modified to read “24 percent.”

(c) (1) With respect to any expense paid or incurred after the operative date of Section 6378, Section 41(b)(1) of the Internal Revenue Code is modified to exclude from the definition of “qualified research expense” any amount paid or incurred for tangible personal property that is eligible for the exemption from sales or use tax provided by Section 6378.

(2) “Qualified research” and “basic research” shall include only research conducted in California.

(d) The provisions of Section 41(e)(7)(A) of the Internal Revenue Code, shall be modified so that “basic research,” for purposes of this section, includes any basic or applied research including scientific inquiry or original investigation for the advancement of scientific or engineering knowledge or the improved effectiveness of commercial products, except that the term does not include any of the following:

(1) Basic research conducted outside California.

(2) Basic research in the social sciences, arts, or humanities.

(3) Basic research for the purpose of improving a commercial product if the improvements relate to style, taste, cosmetic, or seasonal design factors.

(4) Any expenditure paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral (including oil and gas).

(e) (1) In the case of a taxpayer engaged in any biopharmaceutical research activities that are described in codes 2833 to 2836, inclusive, or any research activities that are described in codes 3826, 3829, or 3841 to 3845, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, or any other biotechnology research and development activities, the provisions of Section 41(e)(6) of the Internal Revenue Code shall be modified to include both of the following:

(A) A qualified organization as described in Section 170(b)(1)(A)(iii) of the Internal Revenue Code and owned by an institution of higher education as described in Section 3304(f) of the Internal Revenue Code.

(B) A charitable research hospital owned by an organization that is described in Section 501(c)(3) of the Internal Revenue

Code, is exempt from taxation under Section 501(a) of the Internal Revenue Code, is not a private foundation, is designated a “specialized laboratory cancer center,” and has received Clinical Cancer Research Center status from the National Cancer Institute.

(2) For purposes of this subdivision:

(A) “Biopharmaceutical research activities” means those activities that use organisms or materials derived from organisms, and their cellular, subcellular, or molecular components, in order to provide pharmaceutical products for human or animal therapeutics and diagnostics. Biopharmaceutical activities make use of living organisms to make commercial products, as opposed to pharmaceutical activities that make use of chemical compounds to produce commercial products.

(B) “Other biotechnology research and development activities” means research and development activities consisting of the application of recombinant DNA technology to produce commercial products, as well as research and development activities regarding pharmaceutical delivery systems designed to provide a measure of control over the rate, duration, and site of pharmaceutical delivery.

(f) In the case where the credit allowed by this section exceeds the “tax,” the excess may be carried over to reduce the “tax” in the following year, and succeeding years if necessary, until the credit has been exhausted.

(g) For each taxable year beginning on or after January 1, 1998, the reference to “Section 501(a)” in Section 41(b)(3)(C) of the Internal Revenue Code, relating to contract research expenses, is modified to read “this part or Part 10 (commencing with Section 17001).”

(h) (1) For each taxable year beginning on or after January 1, 1998, and before January 1, 2000:

(A) The reference to “1.65 percent” in Section 41(c)(4)(A)(i) of the Internal Revenue Code is modified to read “one and thirty-two hundredths of one percent.”

(B) The reference to “2.2 percent” in Section 41(c)(4)(A)(ii) of the Internal Revenue Code is modified to read “one and seventy-six hundredths of one percent.”

(C) The reference to “2.75 percent” in Section 41(c)(4)(A)(iii) of the Internal Revenue Code is modified to read “two and two-tenths of one percent.”

(2) For each taxable year beginning on or after January 1, 2000:

(A) The reference to “1.65 percent” in Section 41(c)(4)(A)(i) of the Internal Revenue Code is modified to read “one and forty-nine hundredths of one percent.”

(B) The reference to “2.2 percent” in Section 41(c)(4)(A)(ii) of the Internal Revenue Code is modified to read “one and ninety-eight hundredths of one percent.”

(C) The reference to “2.75 percent” in Section 41(c)(4)(A)(iii) of the Internal Revenue Code is modified to read “two and forty-eight hundredths of one percent.”

(3) Section 41(c)(4)(B) shall not apply and in lieu thereof an election under Section 41(c)(4)(A) of the Internal Revenue Code may be made for any taxable year of the taxpayer beginning on or after January 1, 1998. That election shall apply to the taxable year for which made and all succeeding taxable years unless revoked with the consent of the Franchise Tax Board.

(4) Section 41(c)(6) of the Internal Revenue Code, relating to gross receipts, is modified to take into account only those gross receipts from the sale of property held primarily for sale to customers in the ordinary course of the taxpayer’s trade or business that is delivered or shipped to a purchaser within this state, regardless of f.o.b. point or any other condition of the sale.

(i) Section 41(h) of the Internal Revenue Code, relating to termination, shall not apply.

(j) Section 41(g) of the Internal Revenue Code, relating to special rule for passthrough of credit, is modified by each of the following:

(1) The last sentence shall not apply.

(2) If the amount determined under Section 41(a) of the Internal Revenue Code for any taxable year exceeds the limitation of Section 41(g) of the Internal Revenue Code, that amount may be carried over to other taxable years under the rules of subdivision (f), except that the limitation of Section 41(g) of the Internal Revenue Code shall be taken into account in each subsequent taxable year.

SEC. 30. Section 23610.5 of the Revenue and Taxation Code is amended to read:

23610.5. (a) (1) There shall be allowed as a credit against the “tax” (as defined by Section 23036) a state low-income housing tax credit in an amount equal to the amount determined in

1 subdivision (c), computed in accordance with Section 42 of the
2 Internal Revenue Code of 1986, except as otherwise provided in
3 this section.

4 (2) “Taxpayer,” for purposes of this section, means the sole
5 owner in the case of a C corporation, the partners in the case of a
6 partnership, and the shareholders in the case of an S corporation.

7 (3) “Housing sponsor,” for purposes of this section, means the
8 sole owner in the case of a C corporation, the partnership in the
9 case of a partnership, and the S corporation in the case of an S
10 corporation.

11 (b) (1) The amount of the credit allocated to any housing
12 sponsor shall be authorized by the California Tax Credit
13 Allocation Committee, or any successor thereof, based on a
14 project’s need for the credit for economic feasibility in accordance
15 with the requirements of this section.

16 (A) The low-income housing project shall be located in
17 California and shall meet either of the following requirements:

18 (i) The project’s housing sponsor has been allocated by the
19 California Tax Credit Allocation Committee a credit for federal
20 income tax purposes under Section 42 of the Internal Revenue
21 Code.

22 (ii) It qualifies for a credit under Section 42(h)(4)(B) of the
23 Internal Revenue Code.

24 (B) The California Tax Credit Allocation Committee shall not
25 require fees for the credit under this section in addition to those
26 fees required for applications for the tax credit pursuant to Section
27 42 of the Internal Revenue Code. The committee may require a fee
28 if the application for the credit under this section is submitted in
29 a calendar year after the year the application is submitted for the
30 federal tax credit.

31 (2) (A) The California Tax Credit Allocation Committee shall
32 certify to the housing sponsor the amount of tax credit under this
33 section allocated to the housing sponsor for each credit period.

34 (B) In the case of a partnership or an S corporation, the housing
35 sponsor shall provide a copy of the California Tax Credit
36 Allocation Committee certification to the taxpayer.

37 (C) The taxpayer shall, upon request, provide a copy of the
38 certification to the Franchise Tax Board.

39 (D) All elections made by the taxpayer pursuant to Section 42
40 of the Internal Revenue Code shall apply to this section.

(E) For buildings located in designated difficult development areas or qualified census tracts as defined in Section 42(d)(5)(C) of the Internal Revenue Code, credits may be allocated under this section in the amounts prescribed in subdivision (c), provided that the amount of credit allocated under Section 42 of the Internal Revenue Code is computed on 100 percent of the qualified basis of the building.

(c) Section 42(b) of the Internal Revenue Code shall be modified as follows:

(1) In the case of any qualified low-income building placed in service by the housing sponsor during 1987, the term “applicable percentage” means 9 percent for each of the first three years and 3 percent for the fourth year for new buildings (whether or not the building is federally subsidized) and for existing buildings.

(2) In the case of any qualified low-income building that receives an allocation after 1989 and is a new building not federally subsidized, the term “applicable percentage” means the following:

(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are not federally subsidized for the taxable year, determined in accordance with the requirements of Section 42(b)(2) of the Internal Revenue Code, in lieu of the percentage prescribed in Section 42(b)(1)(A).

(B) For the fourth year, the difference between 30 percent and the sum of the applicable percentages for the first three years.

(3) In the case of any qualified low-income building that receives an allocation after 1989 and that is a new building that is federally subsidized or that is an existing building that is “at risk of conversion,” the term “applicable percentage” means the following:

(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are federally subsidized for the taxable year.

(B) For the fourth year, the difference between 13 percent and the sum of the applicable percentages for the first three years.

(4) For purposes of this section, the term “at risk of conversion,” with respect to an existing building means a building that satisfies all of the following criteria:

1 (A) The building is presently owned by a housing sponsor other
2 than a qualified nonprofit organization.

3 (B) The building is a federally assisted building for which the
4 low-income use restrictions will terminate or the building is
5 eligible for prepayment under Subtitle 13 of the Emergency Low
6 Income Housing Assistance Act of 1987 or under Section 502(c)
7 of the Housing Act of 1949, anytime in the two calendar years after
8 the year of application to the California Tax Credit Allocation
9 Committee, and the purchaser has received preliminary approval
10 from the applicable federal agency for a maximum level of
11 incentives through a plan of action.

12 (C) The person acquiring the building enters into a regulatory
13 agreement that requires the building to be operated in accordance
14 with the requirements of this section for a period equal to the
15 greater of 55 years or the life of the building.

16 (D) The building satisfies the requirements of Section 42(e) of
17 the Internal Revenue Code regarding rehabilitation expenditures,
18 except that the provisions of Section 42(e)(3)(A)(ii)(I) shall not
19 apply.

20 (d) The term “qualified low-income housing project” as
21 defined in Section 42(c)(2) of the Internal Revenue Code is
22 modified by adding the following requirements:

23 (1) The taxpayer shall be entitled to receive a cash distribution
24 from the operations of the project, after funding required reserves,
25 which, at the election of the taxpayer, shall be equal to:

26 (A) An amount not to exceed 8 percent of the lesser of:

27 (i) The owner equity, which shall include the amount of the
28 capital contributions actually paid to the housing sponsor and shall
29 not include any amounts until they are paid on an investor note.

30 (ii) Twenty percent of the adjusted basis of the building as of
31 the close of the first taxable year of the credit period.

32 (B) The amount of the cash-flow from those units in the
33 building that are not low-income units. For purposes of computing
34 cash-flow under this subparagraph, operating costs shall be
35 allocated to the low-income units using the “floor space fraction,”
36 as defined in Section 42 of the Internal Revenue Code.

37 (C) Any amount allowed to be distributed under subparagraph
38 (A) that is not available for distribution during the first five years
39 of the compliance period may accumulate and be distributed at any

1 time during the first 15 years of the compliance period but not
2 thereafter.

3 (2) The limitation on return shall apply in the aggregate to the
4 partners if the housing sponsor is a partnership and in the aggregate
5 to the shareholders if the housing sponsor is an S corporation.

6 (3) The housing sponsor shall apply any cash available for
7 distribution in excess of the amount eligible to be distributed under
8 paragraph (1) to reduce the rent on rent-restricted units or to
9 increase the number of rent-restricted units subject to the tests of
10 Section 42(g)(1) of the Internal Revenue Code.

11 (e) The provisions of Section 42(f) of the Internal Revenue
12 Code shall be modified as follows:

13 (1) The term “credit period” as defined in Section 42(f)(1) of
14 the Internal Revenue Code is modified by substituting “four
15 taxable years” for “10 taxable years.”

16 (2) The special rule for the first taxable year of the credit period
17 under Section 42(f)(2) of the Internal Revenue Code shall not
18 apply to the tax credit under this section.

19 (3) Section 42(f)(3) of the Internal Revenue Code is modified
20 to read:

21 If, as of the close of any taxable year in the compliance period,
22 after the first year of the credit period, the qualified basis of any
23 building exceeds the qualified basis of that building as of the close
24 of the first year of the credit period, the housing sponsor, to the
25 extent of its tax credit allocation, shall be eligible for a credit on
26 the excess in an amount equal to the applicable percentage
27 determined pursuant to subdivision (c) for the four-year period
28 beginning with the later of the taxable years in which the increase
29 in qualified basis occurs.

30 (f) The provisions of Section 42(h) of the Internal Revenue
31 Code shall be modified as follows:

32 (1) Section 42(h)(2) of the Internal Revenue Code shall not be
33 applicable and instead the following provisions shall be
34 applicable:

35 The total amount for the four-year credit period of the housing
36 credit dollars allocated in a calendar year to any building shall
37 reduce the aggregate housing credit dollar amount of the
38 California Tax Credit Allocation Committee for the calendar year
39 in which the allocation is made.

(2) Paragraphs (3), (4), (5), (6)(E)(i)(II), (6)(F), (6)(G), (6)(I), (7), and (8) of Section 42(h) of the Internal Revenue Code shall not be applicable.

(g) The aggregate housing credit dollar amount that may be allocated annually by the California Tax Credit Allocation Committee pursuant to this section, Section 12206, and Section 17058 shall be an amount equal to the sum of the following:

(1) Fifty million dollars (\$50,000,000) for the 1999 calendar year and each calendar year thereafter.

(2) The unused housing credit ceiling, if any, for the preceding calendar years.

(3) The amount of housing credit ceiling returned in the calendar year. For purposes of this paragraph, the amount of housing credit dollar amount returned in the calendar year equals the housing credit dollar amount previously allocated to any project that does not become a qualified low-income housing project within the period required by this section or to any project with respect to which an allocation is canceled by mutual consent of the California Tax Credit Allocation Committee and the allocation recipient.

(h) The term “compliance period” as defined in Section 42(i)(1) of the Internal Revenue Code is modified to mean, with respect to any building, the period of 30 consecutive taxable years beginning with the first taxable year of the credit period with respect thereto.

(i) Section 42(j) of the Internal Revenue Code shall not be applicable and the following shall be substituted in its place:

The requirements of this section shall be set forth in a regulatory agreement between the California Tax Credit Allocation Committee and the housing sponsor, and this agreement shall be subordinated, when required, to any lien or encumbrance of any banks or other institutional lenders to the project. The regulatory agreement entered into pursuant to subdivision (f) of Section 50199.14 of the Health and Safety Code shall apply, provided that the agreement includes all of the following provisions:

(1) A term not less than the compliance period.

(2) A requirement that the agreement be filed in the official records of the county in which the qualified low-income housing project is located.

(3) A provision stating which state and local agencies can enforce the regulatory agreement in the event the housing sponsor fails to satisfy any of the requirements of this section.

(4) A provision that the regulatory agreement shall be deemed a contract enforceable by tenants as third-party beneficiaries thereto, and that allows individuals, whether prospective, present, or former occupants of the building, who meet the income limitation applicable to the building the right to enforce the regulatory agreement in any state court.

(5) A provision incorporating the requirements of Section 42 of the Internal Revenue Code as modified by this section.

(6) A requirement that the housing sponsor notify the California Tax Credit Allocation Committee or its designee if there is a determination by the Internal Revenue Service that the project is not in compliance with Section 42(g) of the Internal Revenue Code.

(7) A requirement that the housing sponsor, as security for the performance of the housing sponsor's obligations under the regulatory agreement, assign the housing sponsor's interest in rents that it receives from the project, provided that until there is a default under the regulatory agreement, the housing sponsor is entitled to collect and retain the rents.

(8) A provision that the remedies available in the event of a default under the regulatory agreement that is not cured within a reasonable cure period include, but are not limited to, allowing any of the parties designated to enforce the regulatory agreement to collect all rents with respect to the project; taking possession of the project and operating the project in accordance with the regulatory agreement until the enforcer determines the housing sponsor is in a position to operate the project in accordance with the regulatory agreement; applying to any court for specific performance; securing the appointment of a receiver to operate the project; or any other relief as may be appropriate.

(j) (1) The committee shall allocate the housing credit on a regular basis consisting of two or more periods in each calendar year during which applications may be filed and considered. The committee shall establish application filing deadlines, the maximum percentage of federal and state low-income housing tax credit ceiling that may be allocated by the committee in that period, and the approximate date on which allocations shall be

1 made. If the enactment of federal or state law, the adoption of rules
2 or regulations, or other similar events prevent the use of two
3 allocation periods, the committee may reduce the number of
4 periods and adjust the filing deadlines, maximum percentage of
5 credit allocated, and allocation dates.

6 (2) The committee shall adopt a qualified allocation plan, as
7 provided in Section 42(m)(1) of the Internal Revenue Code. In
8 adopting this plan, the committee shall comply with the provisions
9 of Sections 42(m)(1)(B) and 42(m)(1)(C) of the Internal Revenue
10 Code.

11 (3) Notwithstanding Section 42(m) of the Internal Revenue
12 Code, the California Tax Credit Allocation Committee shall
13 allocate housing credits in accordance with the qualified allocation
14 plan and regulations, which shall include the following provisions:

15 (A) All housing sponsors, as defined by paragraph (3) of
16 subdivision (a), shall demonstrate at the time the application is
17 filed with the committee that the project meets the following
18 threshold requirements:

19 (i) The housing sponsor shall demonstrate that there is a need
20 for low-income housing in the community or region for which it
21 is proposed.

22 (ii) The project's proposed financing, including tax credit
23 proceeds, shall be sufficient to complete the project and shall be
24 adequate to operate the project for the extended use period.

25 (iii) The project shall have enforceable financing
26 commitments, either construction or permanent financing, for at
27 least 50 percent of the total estimated financing of the project.

28 (iv) The housing sponsor shall have and maintain control of the
29 site for the project.

30 (v) The housing sponsor shall demonstrate that the project
31 complies with all applicable local land use and zoning ordinances.

32 (vi) The housing sponsor shall demonstrate that the project
33 development team has the experience and the financial capacity to
34 ensure project completion and operation for the extended use
35 period.

36 (vii) The housing sponsor shall demonstrate the amount of tax
37 credit that is necessary for the financial feasibility of the project
38 and its viability as a qualified low-income housing project
39 throughout the extended use period, taking into account operating
40 expenses, a supportable debt service, reserves, funds set aside for



1 rental subsidies, and required equity, and a development fee that
2 does not exceed a specified percentage of the eligible basis of the
3 project prior to inclusion of the development fee in the eligible
4 basis, as determined by the committee.

5 (B) The committee shall give a preference to those projects
6 satisfying all of the threshold requirements of subparagraph (A) if
7 both of the following apply:

8 (i) The project serves the lowest income tenants at rents
9 affordable to those tenants.

10 (ii) The project is obligated to serve qualified tenants for the
11 longest period.

12 (C) In addition to the provisions of subparagraphs (A) and (B),
13 the committee shall use the following criteria in allocating housing
14 credits:

15 (i) Projects serving large families in which a substantial
16 number, as defined by the committee, of all residential units are
17 low-income units with three and more bedrooms.

18 (ii) Projects providing single-room occupancy units serving
19 very low income tenants.

20 (iii) Existing projects that are “at risk of conversion,” as
21 defined by paragraph (4) of subdivision (c).

22 (iv) Projects for which a public agency provides direct or
23 indirect long-term financial support for at least 15 percent of the
24 total project development costs or projects for which the owner’s
25 equity constitutes at least 30 percent of the total project
26 development costs.

27 (v) Projects that provide tenant amenities not generally
28 available to residents of low-income housing projects.

29 (4) For purposes of allocating credits pursuant to this section,
30 the committee shall not give preference to any project by virtue of
31 the date of submission of its application except to break a tie when
32 two or more of the projects have an equal rating.

33 (5) Not less than 20 percent of the low-income housing tax
34 credits available annually under this section, Section 12206, and
35 Section 17058 shall be set aside for allocation to rural areas as
36 defined in Section 50199.21 of the Health and Safety Code. Any
37 amount of credit set aside for rural areas remaining on or after
38 October 31 of any calendar year shall be available for allocation
39 to any eligible project. No amount of credit set aside for rural areas

1 shall be considered available for any eligible project so long as
2 there are eligible rural applications pending on October 31.

3 (k) Section 42(l) of the Internal Revenue Code shall be
4 modified as follows:

5 The term “secretary” shall be replaced by the term “California
6 Franchise Tax Board.”

7 (l) In the case where the state credit allowed under this section
8 exceeds the “tax,” the excess may be carried over to reduce the
9 “tax” in the following year, and succeeding years if necessary,
10 until the credit has been exhausted.

11 (m) A project that received an allocation of a 1989 federal
12 housing credit dollar amount shall be eligible to receive an
13 allocation of a 1990 state housing credit dollar amount, subject to
14 all of the following conditions:

15 (1) The project was not placed in service prior to 1990.

16 (2) To the extent the amendments made to this section by the
17 Statutes of 1990 conflict with any provisions existing in this
18 section prior to those amendments, the prior provisions of law
19 shall prevail.

20 (3) Notwithstanding paragraph (2), a project applying for an
21 allocation under this subdivision shall be subject to the
22 requirements of paragraph (3) of subdivision (j).

23 (n) The credit period with respect to an allocation of credit in
24 1989 by the California Tax Credit Allocation Committee of which
25 any amount is attributable to unallocated credit from 1987 or 1988
26 shall not begin until after December 31, 1989.

27 (o) The provisions of Section 11407(a) of Public Law 101-508,
28 relating to the effective date of the extension of the low-income
29 housing credit, shall apply to calendar years after 1989.

30 (p) The provisions of Section 11407(c) of Public Law 101-508,
31 relating to election to accelerate credit, shall not apply.

32 (q) (1) A corporation may elect to assign any portion of any
33 credit allowed under this section to one or more affiliated
34 corporations for each taxable year in which the credit is allowed.
35 For purposes of this subdivision, “affiliated corporation” has the
36 meaning provided in subdivision (b) of Section 25110, as that
37 section was amended by Chapter 881 of the Statutes of 1993, as of
38 the last day of the taxable year in which the credit is allowed,
39 except that “100 percent” is substituted for “more than 50
40 percent” wherever it appears in the section, as that section was

1 amended by Chapter 881 of the Statutes of 1993, and “voting
2 common stock” is substituted for “voting stock” wherever it
3 appears in the section, as that section was amended by Chapter 881
4 of the Statutes of 1993.

5 (2) The election provided in paragraph (1):

6 (A) May be based on any method selected by the corporation
7 that originally receives the credit.

8 (B) Shall be irrevocable for the taxable year the credit is
9 allowed, once made.

10 (C) May be changed for any subsequent taxable year if the
11 election to make the assignment is expressly shown on each of the
12 returns of the affiliated corporations that assign and receive the
13 credits.

14 (r) Any unused credit may continue to be carried forward, as
15 provided in subdivision (k), until the credit has been exhausted.

16 This section shall remain in effect on or after December 1, 1990,
17 for as long as Section 42 of the Internal Revenue Code, relating to
18 low-income housing credits, remains in effect.

19 (s) The amendments to this section made by the act adding this
20 subdivision shall apply only to taxable years beginning on or after
21 January 1, 1994, except that paragraph (1) of subdivision (q), as
22 amended, shall apply to taxable years beginning on or after
23 January 1, 1993.

24 ~~SEC. 32.—~~

25 *SEC. 31.* Section 23622.8 of the Revenue and Taxation Code
26 is amended to read:

27 23622.8. (a) For each taxable year beginning on or after
28 January 1, 1998, there shall be allowed a credit against the “tax”
29 (as defined in Section 23036) to a qualified taxpayer for hiring a
30 qualified disadvantaged individual during the taxable year for
31 employment in the Manufacturing Enhancement Area. The credit
32 shall be equal to the sum of each of the following:

33 (1) Fifty percent of the qualified wages in the first year of
34 employment.

35 (2) Forty percent of the qualified wages in the second year of
36 employment.

37 (3) Thirty percent of the qualified wages in the third year of
38 employment.

39 (4) Twenty percent of the qualified wages in the fourth year of
40 employment.

1 (5) Ten percent of the qualified wages in the fifth year of
2 employment.

3 (b) For purposes of this section:

4 (1) “Qualified wages” means:

5 (A) That portion of wages paid or incurred by the qualified
6 taxpayer during the taxable year to qualified disadvantaged
7 individuals that does not exceed 150 percent of the minimum
8 wage.

9 (B) The total amount of qualified wages which may be taken
10 into account for purposes of claiming the credit allowed under this
11 section shall not exceed two million dollars (\$2,000,000) per
12 taxable year.

13 (C) Wages received during the 60-month period beginning
14 with the first day the qualified disadvantaged individual
15 commences employment with the qualified taxpayer.
16 Reemployment in connection with any increase, including a
17 regularly occurring seasonal increase, in the trade or business
18 operations of the qualified taxpayer does not constitute
19 commencement of employment for purposes of this section.

20 (D) Qualified wages do not include any wages paid or incurred
21 by the qualified taxpayer on or after the Manufacturing
22 Enhancement Area expiration date. However, wages paid or
23 incurred with respect to qualified employees who are employed by
24 the qualified taxpayer within the Manufacturing Enhancement
25 Area within the 60-month period prior to the Manufacturing
26 Enhancement Area expiration date shall continue to qualify for the
27 credit under this section after the Manufacturing Enhancement
28 Area expiration date, in accordance with all provisions of this
29 section applied as if the Manufacturing Enhancement Area
30 designation were still in existence and binding.

31 (2) “Minimum wage” means the wage established by the
32 Industrial Welfare Commission as provided for in Chapter 1
33 (commencing with Section 1171) of Part 4 of Division 2 of the
34 Labor Code.

35 (3) “Manufacturing Enhancement Area” means an area
36 designated pursuant to Section 7073.8 of the Government Code
37 according to the procedures of Chapter 12.8 (commencing with
38 Section 7070) of Division 7 of Title 1 of the Government Code.



(4) “Manufacturing Enhancement Area expiration date” means the date the Manufacturing Enhancement Area designation expires, is no longer binding, or becomes inoperative.

(5) “Qualified disadvantaged individual” means an individual who satisfies all of the following requirements:

(A) (i) At least 90 percent of whose services for the qualified taxpayer during the taxable year are directly related to the conduct of the qualified taxpayer’s trade or business located in a Manufacturing Enhancement Area.

(ii) Who performs at least 50 percent of his or her services for the qualified taxpayer during the taxable year in the Manufacturing Enhancement Area.

(B) Who is hired by the qualified taxpayer after the designation of the area as a Manufacturing Enhancement Area in which the individual’s services were primarily performed.

(C) Who is any of the following immediately preceding the individual’s commencement of employment with the qualified taxpayer:

(i) An individual who has been determined eligible for services under the federal Job Training Partnership Act (29 U.S.C. Sec. 1501 et seq.) or its successor.

(ii) Any voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985, or its successor, as provided pursuant to Article 3.2 (commencing with Section 11320) of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions Code.

(iii) Any individual who has been certified eligible by the Employment Development Department under the federal Targeted Jobs Tax Credit Program, or its successor, whether or not this program is in effect.

(6) “Qualified taxpayer” means any corporation engaged in a trade or business within a Manufacturing Enhancement Area designated pursuant to Section 7073.8 of the Government Code and that meets all of the following requirements:

(A) Is engaged in those lines of business described in Codes 0211 to 0291, inclusive, Code 0723, or in Codes 2011 to 3999, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition.

1 (B) At least 50 percent of the qualified taxpayer's workforce
2 hired after the designation of the Manufacturing Enhancement
3 Area is composed of individuals who, at the time of hire, are
4 residents of the county in which the Manufacturing Enhancement
5 Area is located.

6 (C) Of this percentage of local hires, at least 30 percent shall be
7 qualified disadvantaged individuals.

8 (7) "Seasonal employment" means employment by a qualified
9 taxpayer that has regular and predictable substantial reductions in
10 trade or business operations.

11 (c) (1) For purposes of this section, all of the following apply:

12 (A) All employees of all corporations that are members of the
13 same controlled group of corporations shall be treated as employed
14 by a single qualified taxpayer.

15 (B) The credit (if any) allowable by this section with respect to
16 each member shall be determined by reference to its proportionate
17 share of the expenses of the qualified wages giving rise to the credit
18 and shall be allocated in that manner.

19 (C) Principles that apply in the case of controlled groups of
20 corporations, as specified in subdivision (d) of Section 23622.7,
21 shall apply with respect to determining employment.

22 (2) If a qualified taxpayer acquires the major portion of a trade
23 or business of another employer (hereinafter in this paragraph
24 referred to as the "predecessor") or the major portion of a separate
25 unit of a trade or business of a predecessor, then, for purposes of
26 applying this section (other than subdivision (d)) for any calendar
27 year ending after that acquisition, the employment relationship
28 between a qualified disadvantaged individual and a qualified
29 taxpayer shall not be treated as terminated if the qualified
30 disadvantaged individual continues to be employed in that trade or
31 business.

32 (d) (1) (A) If the employment, other than seasonal
33 employment, of any qualified disadvantaged individual, with
34 respect to whom qualified wages are taken into account under
35 subdivision (b) is terminated by the qualified taxpayer at any time
36 during the first 270 days of that employment (whether or not
37 consecutive) or before the close of the 270th calendar day after the
38 day in which that qualified disadvantaged individual completes 90
39 days of employment with the qualified taxpayer, the tax imposed
40 by this part for the taxable year in which that employment is

1 terminated shall be increased by an amount equal to the credit
2 allowed under subdivision (a) for that taxable year and all prior
3 taxable years attributable to qualified wages paid or incurred with
4 respect to that qualified disadvantaged individual.

5 (B) If the seasonal employment of any qualified disadvantaged
6 individual, with respect to whom qualified wages are taken into
7 account under subdivision (a) is not continued by the qualified
8 taxpayer for a period of 270 days of employment during the
9 60-month period beginning with the day the qualified
10 disadvantaged individual commences seasonal employment with
11 the qualified taxpayer, the tax imposed by this part, for the income
12 year that includes the 60th month following the month in which the
13 qualified disadvantaged individual commences seasonal
14 employment with the qualified taxpayer, shall be increased by an
15 amount equal to the credit allowed under subdivision (a) for that
16 taxable year and all prior taxable years attributable to qualified
17 wages paid or incurred with respect to that qualified disadvantaged
18 individual.

19 (2) (A) Subparagraph (A) of paragraph (1) does not apply to
20 any of the following:

21 (i) A termination of employment of a qualified disadvantaged
22 individual who voluntarily leaves the employment of the qualified
23 taxpayer.

24 (ii) A termination of employment of a qualified disadvantaged
25 individual who, before the close of the period referred to in
26 subparagraph (A) of paragraph (1), becomes disabled to perform
27 the services of that employment, unless that disability is removed
28 before the close of that period and the qualified taxpayer fails to
29 offer reemployment to that individual.

30 (iii) A termination of employment of a qualified disadvantaged
31 individual, if it is determined that the termination was due to the
32 misconduct (as defined in Sections 1256-30 to 1256-43, inclusive,
33 of Title 22 of the California Code of Regulations) of that
34 individual.

35 (iv) A termination of employment of a qualified disadvantaged
36 individual due to a substantial reduction in the trade or business
37 operations of the qualified taxpayer.

38 (v) A termination of employment of a qualified disadvantaged
39 individual, if that individual is replaced by other qualified

1 disadvantaged individuals so as to create a net increase in both the
2 number of employees and the hours of employment.

3 (B) Subparagraph (B) of paragraph (1) shall not apply to any
4 of the following:

5 (i) A failure to continue the seasonal employment of a qualified
6 disadvantaged individual who voluntarily fails to return to the
7 seasonal employment of the qualified taxpayer.

8 (ii) A failure to continue the seasonal employment of a
9 qualified disadvantaged individual who, before the close of the
10 period referred to in subparagraph (B) of paragraph (1), becomes
11 disabled and unable to perform the services of that seasonal
12 employment, unless that disability is removed before the close of
13 that period and the qualified taxpayer fails to offer seasonal
14 employment to that qualified disadvantaged individual.

15 (iii) A failure to continue the seasonal employment of a
16 qualified disadvantaged individual, if it is determined that the
17 failure to continue the seasonal employment was due to the
18 misconduct (as defined in Sections 1256-30 to 1256-43, inclusive,
19 of Title 22 of the California Code of Regulations) of that qualified
20 disadvantaged individual.

21 (iv) A failure to continue seasonal employment of a qualified
22 disadvantaged individual due to a substantial reduction in the
23 regular seasonal trade or business operations of the qualified
24 taxpayer.

25 (v) A failure to continue the seasonal employment of a
26 qualified disadvantaged individual, if that qualified disadvantaged
27 individual is replaced by other qualified disadvantaged individuals
28 so as to create a net increase in both the number of seasonal
29 employees and the hours of seasonal employment.

30 (C) For purposes of paragraph (1), the employment
31 relationship between the qualified taxpayer and a qualified
32 disadvantaged individual shall not be treated as terminated by
33 either of the following:

34 (i) By a transaction to which Section 381(a) of the Internal
35 Revenue Code applies, if the qualified disadvantaged individual
36 continues to be employed by the acquiring corporation.

37 (ii) By reason of a mere change in the form of conducting the
38 trade or business of the qualified taxpayer, if the qualified
39 disadvantaged individual continues to be employed in that trade or

1 business and the qualified taxpayer retains a substantial interest in
2 that trade or business.

3 (3) Any increase in tax under paragraph (1) shall not be treated
4 as tax imposed by this part for purposes of determining the amount
5 of any credit allowable under this part.

6 (e) The credit shall be reduced by the credit allowed under
7 Section 23621. The credit shall also be reduced by the federal
8 credit allowed under Section 51 of the Internal Revenue Code.

9 In addition, any deduction otherwise allowed under this part for
10 the wages or salaries paid or incurred by the qualified taxpayer
11 upon which the credit is based shall be reduced by the amount of
12 the credit, prior to any reduction required by subdivision (f) or (g).

13 (f) In the case where the credit otherwise allowed under this
14 section exceeds the “tax” for the taxable year, that portion of the
15 credit that exceeds the “tax” may be carried over and added to the
16 credit, if any, in succeeding years, until the credit is exhausted. The
17 credit shall be applied first to the earliest taxable years possible.

18 (g) (1) The amount of credit otherwise allowed under this
19 section, including prior year credit carryovers, that may reduce the
20 “tax” for the taxable year shall not exceed the amount of tax that
21 would be imposed on the qualified taxpayer’s business income
22 attributed to a Manufacturing Enhancement Area determined as if
23 that attributed income represented all of the net income of the
24 qualified taxpayer subject to tax under this part.

25 (2) Attributable income is that portion of the taxpayer’s
26 California source business income that is apportioned to the
27 Manufacturing Enhancement Area. For that purpose, the
28 taxpayer’s business income attributable to sources in this state first
29 shall be determined in accordance with Chapter 17 (commencing
30 with Section 25101). That business income shall be further
31 apportioned to the Manufacturing Enhancement Area in
32 accordance with Article 2 (commencing with Section 25120) of
33 Chapter 17, modified for purposes of this section in accordance
34 with paragraph (3).

35 (3) Income shall be apportioned to a Manufacturing
36 Enhancement Area by multiplying the total California business
37 income of the taxpayer by a fraction, the numerator of which is the
38 property factor plus the payroll factor, and the denominator of
39 which is two. For the purposes of this paragraph:



(A) The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in the Manufacturing Enhancement Area during the taxable year, and the denominator of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used in this state during the taxable year.

(B) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the Manufacturing Enhancement Area during the taxable year for compensation, and the denominator of which is the total compensation paid by the taxpayer in this state during the taxable year.

(4) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding taxable years, as if it were an amount exceeding the "tax" for the taxable year, as provided in subdivision (g).

(h) If the taxpayer is allowed a credit pursuant to this section for qualified wages paid or incurred, only one credit shall be allowed to the taxpayer under this part with respect to any wage consisting in whole or in part of those qualified wages.

~~SEC. 33.—~~

SEC. 32. Section 23630 of the Revenue and Taxation Code is amended to read:

23630. (a) There shall be allowed as a credit against the "tax," as defined in Section 23036, an amount equal to 55 percent of the fair market value of any qualified contribution made on or after January 1, 2000, and prior to December 31, 2005, by the taxpayer during the taxable year to the state, any local government, or any designated nonprofit organization, pursuant to Division 28 (commencing with Section 37000) of the Public Resources Code.

(b) For purposes of this section, "qualified contribution" means a contribution of property, as defined in Section 37002 of the Public Resources Code, that has been approved for acceptance by the Wildlife Conservation Board pursuant to Division 28 (commencing with Section 37000) of the Public Resources Code.

(c) In the case of any passthrough entity, the fair market value of any qualified contribution approved for acceptance under Division 28 (commencing with Section 37000) of the Public Resources Code shall be passed through to the partners or shareholders of the passthrough entity in accordance with their

1 interest in the passthrough entity as of the date of the qualified
2 contribution. For purposes of this subdivision, the term
3 “passthrough entity” means any partnership or S corporation.

4 (d) If the credit allowed by this section exceeds the “tax,” the
5 excess may be carried over to reduce the “tax” in the following
6 year, and the succeeding seven years if necessary, until the credit
7 is exhausted.

8 (e) This credit shall be in lieu of any other credit or deduction
9 that the taxpayer may otherwise claim pursuant to this part with
10 respect to the property or any interest therein that is contributed.

11 ~~SEC. 35.—~~

12 *SEC. 33.* Section 23645 of the Revenue and Taxation Code is
13 amended to read:

14 23645. (a) For each taxable year beginning on or after
15 January 1, 1995, there shall be allowed as a credit against the “tax”
16 (as defined by Section 23036) for the taxable year an amount equal
17 to the sales or use tax paid or incurred by the taxpayer in
18 connection with the purchase of qualified property to the extent
19 that the qualified property does not exceed a value of twenty
20 million dollars (\$20,000,000).

21 (b) For purposes of this section:

22 (1) “LAMBRA” means a local agency military base recovery
23 area designated in accordance with Section 7114 of the
24 Government Code.

25 (2) “Taxpayer” means a corporation that conducts a trade or
26 business within a LAMBRA and, for the first two taxable years,
27 has a net increase in jobs (defined as 2,000 paid hours per
28 employee per year) of one or more employees in the LAMBRA.

29 (A) The net increase in the number of jobs shall be determined
30 by subtracting the total number of full-time employees (defined as
31 2,000 paid hours per employee per year) the taxpayer employed in
32 this state in the taxable year prior to commencing business
33 operations in the LAMBRA from the total number of full-time
34 employees the taxpayer employed in this state during the second
35 taxable year after commencing business operations in the
36 LAMBRA. For taxpayers who commence doing business in this
37 state with their LAMBRA business operation, the number of
38 employees for the taxable year prior to commencing business
39 operations in the LAMBRA shall be zero. If the taxpayer has a net

1 increase in jobs in the state, the credit shall be allowed only if one
2 or more full-time employees is employed within the LAMBRA.

3 (B) The total number of employees employed in the LAMBRA
4 shall equal the sum of both of the following:

5 (i) The total number of hours worked in the LAMBRA for the
6 taxpayer by employees (not to exceed 2,000 hours per employee)
7 who are paid an hourly wage divided by 2,000.

8 (ii) The total number of months worked in the LAMBRA for
9 the taxpayer by employees that are salaried employees divided by
10 12.

11 (C) In the case of a taxpayer who first commences doing
12 business in the LAMBRA during the taxable year, for purposes of
13 clauses (i) and (ii), respectively, of subparagraph (B) the divisors
14 “2,000” and “12” shall be multiplied by a fraction, the numerator
15 of which is the number of months of the taxable year that the
16 taxpayer was doing business in the LAMBRA and the
17 denominator of which is 12.

18 (3) “Qualified property” means property that is each of the
19 following:

20 (A) Purchased by the taxpayer for exclusive use in a trade or
21 business conducted within a LAMBRA.

22 (B) Purchased before the date the LAMBRA designation
23 expires, is no longer binding, or becomes inoperative.

24 (C) Any of the following:

25 (i) High technology equipment, including, but not limited to,
26 computers and electronic processing equipment.

27 (ii) Aircraft maintenance equipment, including, but not limited
28 to, engine stands, hydraulic mules, power carts, test equipment,
29 handtools, aircraft start carts, and tugs.

30 (iii) Aircraft components, including, but not limited to,
31 engines, fuel control units, hydraulic pumps, avionics, starts,
32 wheels, and tires.

33 (iv) Section 1245 property, as defined in Section 1245(a)(3) of
34 the Internal Revenue Code.

35 (c) The credit provided under subdivision (a) shall only be
36 allowed for qualified property manufactured in California unless
37 qualified property of a comparable quality and price is not
38 available for timely purchase and delivery from a California
39 manufacturer.

1 (d) In the case where the credit otherwise allowed under this
2 section exceeds the “tax” for the taxable year, that portion of the
3 credit which exceeds the “tax” may be carried over and added to
4 the credit, if any, in succeeding years, until the credit is exhausted.
5 The credit shall be applied first to the earliest taxable years
6 possible.

7 (e) Any taxpayer who elects to be subject to this section shall
8 not be entitled to increase the basis of the property as otherwise
9 required by Section 164(a) of the Internal Revenue Code with
10 respect to sales or use tax paid or incurred in connection with the
11 purchase of qualified property.

12 (f) (1) The amount of the credit otherwise allowed under this
13 section and Section 23646, including any credit carryovers from
14 prior years, that may reduce the “tax” for the taxable year shall not
15 exceed the amount of tax that would be imposed on the taxpayer’s
16 business income attributed to a LAMBRA determined as if that
17 attributable income represented all the income of the taxpayer
18 subject to tax under this part.

19 (2) Attributable income shall be that portion of the taxpayer’s
20 California source business income that is apportioned to the
21 LAMBRA. For that purpose, the taxpayer’s business income that
22 is attributable to sources in this state shall first be determined in
23 accordance with Chapter 17 (commencing with Section 25101).
24 That business income shall be further apportioned to the
25 LAMBRA in accordance with Article 2 (commencing with
26 Section 25120) of Chapter 17, modified for purposes of this
27 section in accordance with paragraph (3).

28 (3) Income shall be apportioned to a LAMBRA by multiplying
29 the total California business income of the taxpayer by a fraction,
30 the numerator of which is the property factor, plus the payroll
31 factor, and the denominator of which is two. For purposes of this
32 paragraph:

33 (A) The property factor is a fraction, the numerator of which is
34 the average value of the taxpayer’s real and tangible personal
35 property owned or rented and used in the LAMBRA during the
36 taxable year, and the denominator of which is the average value of
37 all the taxpayer’s real and tangible personal property owned or
38 rented and used in this state during the taxable year.

39 (B) The payroll factor is a fraction, the numerator of which is
40 the total amount paid by the taxpayer in the LAMBRA during the

1 taxable year for compensation, and the denominator of which is
2 the total compensation paid by the taxpayer in this state during the
3 taxable year.

4 (4) The portion of any credit remaining, if any, after application
5 of this subdivision, shall be carried over to succeeding taxable
6 years, as if it were an amount exceeding the “tax” for the taxable
7 year, as provided in subdivision (d).

8 (g) (1) If the qualified property is disposed of or no longer used
9 by the taxpayer in the LAMBRA, at any time before the close of
10 the second taxable year after the property is placed in service, the
11 amount of the credit previously claimed, with respect to that
12 property, shall be added to the taxpayer’s tax liability in the taxable
13 year of that disposition or nonuse.

14 (2) At the close of the second taxable year, if the taxpayer has
15 not increased the number of its employees as determined by
16 paragraph (2) of subdivision (b), then the amount of the credit
17 previously claimed shall be added to the taxpayer’s tax for the
18 taxpayer’s second taxable year.

19 (h) If the taxpayer is allowed a credit for qualified property
20 pursuant to this section, only one credit shall be allowed to the
21 taxpayer under this part with respect to that qualified property.

22 (i) The amendments made to this section by the act adding this
23 subdivision shall apply to taxable years beginning on or after
24 January 1, 1998.

25 ~~SEC. 37.—~~

26 *SEC. 34. Section 23646 of the Revenue and Taxation Code is*
27 *amended to read:*

28 23646. (a) For each ~~income~~ *taxable* year beginning on or
29 after January 1, 1995, there shall be allowed as a credit against the
30 “tax” (as defined in Section 23036) to a qualified taxpayer for
31 hiring a qualified disadvantaged individual or a qualified
32 displaced employee during the ~~income~~ *taxable* year for
33 employment in the LAMBRA. The credit shall be equal to the sum
34 of each of the following:

35 (1) Fifty percent of the qualified wages in the first year of
36 employment.

37 (2) Forty percent of the qualified wages in the second year of
38 employment.

39 (3) Thirty percent of the qualified wages in the third year of
40 employment.

1 (4) Twenty percent of the qualified wages in the fourth year of
2 employment.

3 (5) Ten percent of the qualified wages in the fifth year of
4 employment.

5 (b) For purposes of this section:

6 (1) “Qualified wages” means:

7 (A) That portion of wages paid or incurred by the employer
8 during the ~~income~~ *taxable* year to qualified disadvantaged
9 individuals or qualified displaced employees that does not exceed
10 150 percent of the minimum wage.

11 (B) The total amount of qualified wages which may be taken
12 into account for purposes of claiming the credit allowed under this
13 section shall not exceed two million dollars (\$2,000,000) per
14 ~~income~~ *taxable* year.

15 (C) Wages received during the 60-month period beginning
16 with the first day the individual commences employment with the
17 taxpayer. Reemployment in connection with any increase,
18 including a regularly occurring seasonal increase, in the trade or
19 business operation of the qualified taxpayer does not constitute
20 commencement of employment for purposes of this section.

21 (D) Qualified wages do not include any wages paid or incurred
22 by the qualified taxpayer on or after the LAMBRA expiration date.
23 However, wages paid or incurred with respect to qualified
24 disadvantaged individuals or qualified displaced employees who
25 are employed by the qualified taxpayer within the LAMBRA
26 within the 60-month period prior to the LAMBRA expiration date
27 shall continue to qualify for the credit under this section after the
28 LAMBRA expiration date, in accordance with all provisions of
29 this section applied as if the LAMBRA designation were still in
30 existence and binding.

31 (2) “Minimum wage” means the wage established by the
32 Industrial Welfare Commission as provided for in Chapter 1
33 (commencing with Section 1171) of Part 4 of Division 2 of the
34 Labor Code.

35 (3) “LAMBRA” means a local agency military base recovery
36 area designated in accordance with the provisions of Section 7114
37 of the Government Code.

38 (4) “Qualified disadvantaged individual” means an individual
39 who satisfies all of the following requirements:

1 (A) (i) At least 90 percent of whose services for the taxpayer
2 during the ~~income~~ *taxable* year are directly related to the conduct
3 of the taxpayer's trade or business located in a LAMBRA.

4 (ii) Who performs at least 50 percent of his or her services for
5 the taxpayer during the ~~income~~ *taxable* year in the LAMBRA.

6 (B) Who is hired by the employer after the designation of the
7 area as a LAMBRA in which the individual's services were
8 primarily performed.

9 (C) Who is any of the following immediately preceding the
10 individual's commencement of employment with the taxpayer:

11 (i) An individual who has been determined eligible for services
12 under the federal ~~Job Training Partnership Act (29 U.S.C. Sec.~~
13 ~~1501 et seq.)~~ *Workforce Investment Act of 1998 (29 U.S.C. Sec.*
14 *2801 et seq.)*.

15 (ii) Any voluntary or mandatory registrant under the Greater
16 Avenues for Independence Act of 1985 provided for pursuant to
17 Article 3.2 (commencing with Section 11320) of Chapter 2 of Part
18 3 of Division 9 of the Welfare and Institutions Code.

19 (iii) An economically disadvantaged individual age 16 years or
20 older.

21 (iv) A dislocated worker who meets any of the following
22 conditions:

23 (I) Has been terminated or laid off or who has received a notice
24 of termination or layoff from employment, is eligible for or has
25 exhausted entitlement to unemployment insurance benefits, and is
26 unlikely to return to his or her previous industry or occupation.

27 (II) Has been terminated or has received a notice of termination
28 of employment as a result of any permanent closure or any
29 substantial layoff at a plant, facility, or enterprise, including an
30 individual who has not received written notification but whose
31 employer has made a public announcement of such a closure or
32 layoff.

33 (III) Is long-term unemployed and has limited opportunities for
34 employment or reemployment in the same or a similar occupation
35 in the area in which the individual resides, including an individual
36 55 years of age or older who may have substantial barriers to
37 employment by reason of age.

38 (IV) Was self-employed (including farmers and ranchers) and
39 is unemployed as a result of general economic conditions in the

1 community in which he or she resides or because of natural
2 disasters.

3 (V) Was a civilian employee of the Department of Defense
4 employed at a military installation being closed or realigned under
5 the Defense Base Closure and Realignment Act of 1990.

6 (VI) Was an active member of the armed forces or National
7 Guard as of September 30, 1990, and was either involuntarily
8 separated or separated pursuant to a special benefits program.

9 (VII) Experiences chronic seasonal unemployment and
10 underemployment in the agriculture industry, aggravated by
11 continual advancements in technology and mechanization.

12 (VIII) Has been terminated or laid off or has received a notice
13 of termination or layoff as a consequence of compliance with the
14 Clean Air Act.

15 (v) An individual who is enrolled in or has completed a state
16 rehabilitation plan or is a service-connected disabled veteran,
17 veteran of the Vietnam era, or veteran who is recently separated
18 from military service.

19 (vi) An ex-offender. An individual shall be treated as convicted
20 if he or she was placed on probation by a state court without a
21 finding of guilty.

22 (vii) A recipient of:

23 (I) Federal Supplemental Security Income benefits.

24 (II) Aid to Families with Dependent Children.

25 (III) Food stamps.

26 (IV) State and local general assistance.

27 (viii) Is a member of a federally recognized Indian tribe, band,
28 or other group of Native American descent.

29 (5) “Qualified taxpayer” means a corporation that conducts a
30 trade or business within a LAMBRA and, for the first two ~~income~~
31 *taxable* years, has a net increase in jobs (defined as 2,000 paid
32 hours per employee per year) of one or more employees as
33 determined below in the LAMBRA.

34 (A) The net increase in the number of jobs shall be determined
35 by subtracting the total number of full-time employees (defined as
36 2,000 paid hours per employee per year) the taxpayer employed in
37 this state in the ~~income~~ *taxable* year prior to commencing business
38 operations in the LAMBRA from the total number of full-time
39 employees the taxpayer employed in this state during the second
40 ~~income~~ *taxable* year after commencing business operations in the

1 LAMBRA. For taxpayers who commence doing business in this
2 state with their LAMBRA business operation, the number of
3 employees for the ~~income~~ *taxable* year prior to commencing
4 business operations in the LAMBRA shall be zero. If the taxpayer
5 has a net increase in jobs in the state, the credit shall be allowed
6 only if one or more full-time employees is employed within the
7 LAMBRA.

8 (B) The total number of employees employed in the LAMBRA
9 shall equal the sum of both of the following:

10 (i) The total number of hours worked in the LAMBRA for the
11 taxpayer by employees (not to exceed 2,000 hours per employee)
12 who are paid an hourly wage divided by 2,000.

13 (ii) The total number of months worked in the LAMBRA for
14 the taxpayer by employees who are salaried employees divided by
15 12.

16 (C) In the case of a qualified taxpayer that first commences
17 doing business in the LAMBRA during the ~~income~~ *taxable* year,
18 for purposes of clauses (i) and (ii), respectively, of subparagraph
19 (B) the divisors “2,000” and “12” shall be multiplied by a
20 fraction, the numerator of which is the number of months of the
21 ~~income~~ *taxable* year that the taxpayer was doing business in the
22 LAMBRA and the denominator of which is 12.

23 (6) “Qualified displaced employee” means an individual who
24 satisfies all of the following requirements:

25 (A) Any civilian or military employee of a base or former base
26 that has been displaced as a result of a federal base closure act.

27 (B) (i) At least 90 percent of whose services for the taxpayer
28 during the ~~income~~ *taxable* year are directly related to the conduct
29 of the taxpayer’s trade or business located in a LAMBRA.

30 (ii) Who performs at least 50 percent of his or her services for
31 the taxpayer during the ~~income~~ *taxable* year in a LAMBRA.

32 (C) Who is hired by the employer after the designation of the
33 area in which services were performed as a LAMBRA.

34 (7) “Seasonal employment” means employment by a qualified
35 taxpayer that has regular and predictable substantial reductions in
36 trade or business operations.

37 (8) “LAMBRA expiration date” means the date the LAMBRA
38 designation expires, is no longer binding, or becomes inoperative.



(c) For qualified disadvantaged individuals or qualified displaced employees hired on or after January 1, 2001, the taxpayer shall do both of the following:

(1) Obtain from either the Employment Development Department, as permitted by federal law, the local county or city ~~Job Training Partnership Act~~ *Workforce Investment Act* administrative entity, the local county GAIN office, or social services agency, as appropriate, a certification that provides that a qualified disadvantaged individual or qualified displaced employee meets the eligibility requirements specified in subparagraph (C) of paragraph (4) of subdivision (b) or subparagraph (A) of paragraph (6) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. The Employment Development Department shall develop a form for this purpose.

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

(d) (1) For purposes of this section, both of the following apply:

(A) All employees of all corporations that are members of the same controlled group of corporations shall be treated as employed by a single employer.

(B) The credit (if any) allowable by this section to each member shall be determined by reference to its proportionate share of the qualified wages giving rise to the credit.

(2) For purposes of this subdivision, “controlled group of corporations” has the meaning given to that term by Section 1563(a) of the Internal Revenue Code, except that both of the following apply:

(A) “More than 50 percent” shall be substituted for “at least 80 percent” each place it appears in Section 1563(a)(1) of the Internal Revenue Code.

(B) The determination shall be made without regard to Section 1563(a)(4) and Section 1563(e)(3)(C) of the Internal Revenue Code.

(3) If an employer acquires the major portion of a trade or business of another employer (hereinafter in this paragraph referred to as the “predecessor”) or the major portion of a separate unit of a trade or business of a predecessor, then, for purposes of applying this section (other than subdivision (e)) for any calendar

1 year ending after that acquisition, the employment relationship
2 between an employee and an employer shall not be treated as
3 terminated if the employee continues to be employed in that trade
4 or business.

5 (e) (1) (A) If the employment of any employee, other than
6 seasonal employment, with respect to whom qualified wages are
7 taken into account under subdivision (a) is terminated by the
8 taxpayer at any time during the first 270 days of that employment
9 (whether or not consecutive) or before the close of the 270th
10 calendar day after the day in which that employee completes 90
11 days of employment with the taxpayer, the tax imposed by this part
12 for the ~~income~~ *taxable* year in which that employment is
13 terminated shall be increased by an amount equal to the credit
14 allowed under subdivision (a) for that ~~income~~ *taxable* year and all
15 prior income years attributable to qualified wages paid or incurred
16 with respect to that employee.

17 (B) If the seasonal employment of any qualified disadvantaged
18 individual, with respect to whom qualified wages are taken into
19 account under subdivision (a) is not continued by the qualified
20 taxpayer for a period of 270 days of employment during the
21 60-month period beginning with the day the qualified
22 disadvantaged individual commences seasonal employment with
23 the qualified taxpayer, the tax imposed by this part, for the ~~income~~
24 *taxable* year that includes the 60th month following the month in
25 which the qualified disadvantaged individual commences
26 seasonal employment with the qualified taxpayer, shall be
27 increased by an amount equal to the credit allowed under
28 subdivision (a) for that ~~income~~ *taxable* year and all prior ~~income~~
29 *taxable* years attributable to qualified wages paid or incurred with
30 respect to that qualified disadvantaged individual.

31 (2) (A) Subparagraph (A) of paragraph (1) shall not apply to
32 any of the following:

33 (i) A termination of employment of an employee who
34 voluntarily leaves the employment of the taxpayer.

35 (ii) A termination of employment of an individual who, before
36 the close of the period referred to in paragraph (1), becomes
37 disabled to perform the services of that employment, unless that
38 disability is removed before the close of that period and the
39 taxpayer fails to offer reemployment to that individual.



1 (iii) A termination of employment of an individual, if it is
2 determined that the termination was due to the misconduct (as
3 defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of
4 the California Code of Regulations) of that individual.

5 (iv) A termination of employment of an individual due to a
6 substantial reduction in the trade or business operations of the
7 taxpayer.

8 (v) A termination of employment of an individual, if that
9 individual is replaced by other qualified employees so as to create
10 a net increase in both the number of employees and the hours of
11 employment.

12 (B) Subparagraph (B) of paragraph (1) shall not apply to any
13 of the following:

14 (i) A failure to continue the seasonal employment of a qualified
15 disadvantaged individual who voluntarily fails to return to the
16 seasonal employment of the qualified taxpayer.

17 (ii) A failure to continue the seasonal employment of a
18 qualified disadvantaged individual who, before the close of the
19 period referred to in subparagraph (B) of paragraph (1), becomes
20 disabled and unable to perform the services of that seasonal
21 employment, unless that disability is removed before the close of
22 that period and the qualified taxpayer fails to offer seasonal
23 employment to that qualified disadvantaged individual.

24 (iii) A failure to continue the seasonal employment of a
25 qualified disadvantaged individual, if it is determined that the
26 failure to continue the seasonal employment was due to the
27 misconduct (as defined in Sections 1256-30 to 1256-43, inclusive,
28 of Title 22 of the California Code of Regulations) of that
29 individual.

30 (iv) A failure to continue seasonal employment of a qualified
31 disadvantaged individual due to a substantial reduction in the
32 regular seasonal trade or business operations of the qualified
33 taxpayer.

34 (v) A failure to continue the seasonal employment of a
35 qualified disadvantaged individual, if that individual is replaced
36 by other qualified disadvantaged individuals so as to create a net
37 increase in both the number of seasonal employees and the hours
38 of seasonal employment.

(C) For purposes of paragraph (1), the employment relationship between the taxpayer and an employee shall not be treated as terminated by either of the following:

(i) A transaction to which Section 381(a) of the Internal Revenue Code applies, if the employee continues to be employed by the acquiring corporation.

(ii) A mere change in the form of conducting the trade or business of the taxpayer, if the employee continues to be employed in that trade or business and the taxpayer retains a substantial interest in that trade or business.

(3) Any increase in tax under paragraph (1) shall not be treated as tax imposed by this part for purposes of determining the amount of any credit allowable under this part.

(4) At the close of the second ~~income~~ *taxable* year, if the taxpayer has not increased the number of its employees as determined by paragraph (5) of subdivision (b), then the amount of the credit previously claimed shall be added to the taxpayer's tax for the taxpayer's second ~~income~~ *taxable* year.

(f) In the case of an organization to which Section 593 of the Internal Revenue Code applies, and a regulated investment company or a real estate investment trust subject to taxation under this part, rules similar to the rules provided in Section 46(e) and Section 46(h) of the Internal Revenue Code shall apply.

(g) The credit shall be reduced by the credit allowed under Section 23621. The credit shall also be reduced by the federal credit allowed under Section 51 of the Internal Revenue Code.

In addition, any deduction otherwise allowed under this part for the wages or salaries paid or incurred by the taxpayer upon which the credit is based shall be reduced by the amount of the credit, prior to any reduction required by subdivision (h) or (i).

(h) In the case where the credit otherwise allowed under this section exceeds the "tax" for the ~~income~~ *taxable* year, that portion of the credit that exceeds the "tax" may be carried over and added to the credit, if any, in succeeding years, until the credit is exhausted. The credit shall be applied first to the earliest ~~income~~ *taxable* years possible.

(i) (1) The amount of credit otherwise allowed under this section and Section 23645, including any prior year carryovers, that may reduce the "tax" for the ~~income~~ *taxable* year shall not exceed the amount of tax that would be imposed on the taxpayer's

business income attributed to a LAMBRA determined as if that attributed income represented all of the income of the taxpayer subject to tax under this part.

(2) Attributable income shall be that portion of the taxpayer's California source business income that is apportioned to the LAMBRA. For that purpose, the taxpayer's business income that is attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101). That business income shall be further apportioned to the LAMBRA in accordance with Article 2 (commencing with Section 25120) of Chapter 17, modified for purposes of this section in accordance with paragraph (3).

(3) Income shall be apportioned to a LAMBRA by multiplying the total California business income of the taxpayer by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two. For purposes of this paragraph:

(A) The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in the LAMBRA during the ~~income~~ taxable year, and the denominator of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used in this state during the ~~income~~ taxable year.

(B) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the LAMBRA during the ~~income~~ taxable year for compensation, and the denominator of which is the total compensation paid by the taxpayer in this state during the ~~income~~ taxable year.

(4) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding ~~income~~ taxable years, as if it were an amount exceeding the "tax" for the ~~income~~ taxable year, as provided in subdivision (h).

(j) If the taxpayer is allowed a credit pursuant to this section for qualified wages paid or incurred, only one credit shall be allowed to the taxpayer under this part with respect to any wage consisting in whole or in part of those qualified wages.

SEC. 35. Section 23649 of the Revenue and Taxation Code is amended to read:

1 23649. (a) (1) A qualified taxpayer shall be allowed a credit
2 against the “tax,” as defined in Section 23036, equal to 6 percent
3 of the qualified cost of qualified property that is placed in service
4 in this state.

5 (2) In the case of any qualified costs paid or incurred on or after
6 January 1, 1994, and prior to the first taxable year of the qualified
7 taxpayer beginning on or after January 1, 1995, the credit provided
8 under paragraph (1) shall be claimed by the qualified taxpayer on
9 the qualified taxpayer’s return for the first taxable year beginning
10 on or after January 1, 1995. No credit shall be claimed under this
11 section on a return filed for any taxable year commencing prior to
12 the qualified taxpayer’s first taxable year beginning on or after
13 January 1, 1995.

14 (b) (1) For purposes of this section, “qualified cost” means
15 any cost that satisfies each of the following conditions:

16 (A) Except as otherwise provided in this subparagraph, is a cost
17 paid or incurred by the qualified taxpayer for the construction,
18 reconstruction, or acquisition of qualified property on or after
19 January 1, 1994, and prior to the date this section ceases to be
20 operative under paragraph (2) of subdivision (i). In the case of any
21 qualified property constructed, reconstructed, or acquired by the
22 qualified taxpayer (or any person related to the qualified taxpayer
23 within the meaning of Section 267 or 707 of the Internal Revenue
24 Code) pursuant to a binding contract in existence on or prior to
25 January 1, 1994, costs paid pursuant to that contract shall be
26 subject to allocation as follows: contract costs shall be allocated to
27 qualified property based on a ratio of costs actually paid prior to
28 January 1, 1994, and total contract costs actually paid. “Cost paid”
29 shall include, without limitation, contractual deposits and option
30 payments. To the extent of cost allocated, whether or not currently
31 deductible or depreciable for tax purposes, to a period prior to
32 January 1, 1994, the cost shall be deemed allocated to property
33 acquired before January 1, 1994, and is thus not a “qualified cost.”

34 (B) Except as provided in paragraph (3) of subdivision (d) and
35 subparagraph (B) of paragraph (4) of subdivision (d), is an amount
36 upon which the qualified taxpayer has paid, directly or indirectly
37 as a separately stated contract amount or as determined from the
38 records of the qualified taxpayer, sales or use tax under Part 1
39 (commencing with Section 6001).

(C) Is an amount properly chargeable to the capital account of the qualified taxpayer.

(2) (A) For purposes of this subdivision, any contract entered into on or after January 1, 1994, that is a successor or replacement contract to a contract that was binding prior to January 1, 1994, shall be treated as a binding contract in existence prior to January 1, 1994.

(B) If a successor or replacement contract is entered into on or after January 1, 1994, and the subject of the successor or replacement contract relates both to amounts for the construction, reconstruction, or acquisition of qualified property described in the original binding contract and to costs for the construction, reconstruction, or acquisition of qualified property not described in the original binding contract, then the portion of those amounts described in the successor or replacement contract that were not described in the original binding contract shall not be treated as costs paid or incurred pursuant to a binding contract in existence on or prior to January 1, 1994, under subparagraph (A) of paragraph (1).

(3) (A) For purposes of this section, an option contract in existence prior to January 1, 1994, under which a qualified taxpayer (or any other person related to the qualified taxpayer within the meaning of Section 267 or 707 of the Internal Revenue Code) had an option to acquire qualified property, shall be treated as a binding contract under the rules in paragraph (2). For purposes of this subparagraph, an option contract shall not include an option under which the optionholder will forfeit an amount less than 10 percent of the fixed option price in the event the option is not exercised.

(B) For purposes of this section, a contract shall be treated as binding even if the contract is subject to a condition.

(4) For purposes of this subdivision, in the case of any qualified taxpayer engaged in those lines of business described in Codes 7371 to 7373, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, “the first taxable year beginning on or after January 1, 1998,” shall be substituted for “January 1, 1994,” in each place in which it appears.

(c) (1) For purposes of this section, “qualified taxpayer” means any taxpayer engaged in those lines of business described

1 in Codes 2011 to 3999, inclusive, or Codes 7371 to 7373,
2 inclusive, of the Standard Industrial Classification (SIC) Manual
3 published by the United States Office of Management and Budget,
4 1987 edition.

5 (2) In the case of any passthrough entity, the determination of
6 whether a taxpayer is a qualified taxpayer shall be made at the
7 entity level and any credit under this section or Section 17053.49
8 shall be allowed to the passthrough entity and passed through to
9 the partners or shareholders in accordance with applicable
10 provisions of Part 10 (commencing with Section 17001) or Part 11
11 (commencing with Section 23001). For purposes of this
12 paragraph, the term “passthrough entity” means any partnership
13 or S corporation.

14 (3) The Franchise Tax Board may prescribe regulations to carry
15 out the purposes of this section, including any regulations
16 necessary to prevent the avoidance of the effect of this section
17 through splitups, shell corporations, partnerships, tiered
18 ownership structures, sale-leaseback transactions, or otherwise.

19 (d) For purposes of this section, “qualified property” means
20 property that is described as either of the following:

21 (1) Tangible personal property that is defined in Section
22 1245(a) of the Internal Revenue Code for use by a qualified
23 taxpayer in those lines of business described in Codes 2011 to
24 3999, inclusive, of the Standard Industrial Classification (SIC)
25 Manual published by the United States Office of Management and
26 Budget, 1987 edition, that is primarily used for any of the
27 following:

28 (A) For the manufacturing, processing, refining, fabricating, or
29 recycling of property, beginning at the point at which any raw
30 materials are received by the qualified taxpayer and introduced
31 into the process and ending at the point at which the
32 manufacturing, processing, refining, fabricating, or recycling has
33 altered tangible personal property to its completed form, including
34 packaging, if required.

35 (B) In research and development.

36 (C) To maintain, repair, measure, or test any property described
37 in this paragraph.

38 (D) For pollution control that meets or exceeds standards
39 established by the state or by any local or regional governmental
40 agency within the state.

(E) For recycling.

(2) Computers and computer peripheral equipment, as defined in Section 168(i)(2)(B) of the Internal Revenue Code, that is tangible personal property as defined in Section 1245(a) of the Internal Revenue Code for use by a qualified taxpayer in those lines of business described in SIC Codes 7371 to 7373, inclusive, of the SIC Manual, 1987 edition, that is primarily used to develop or manufacture prepackaged software or custom software prepared to the special order of the purchaser who uses the program to produce and sell or license copies of the program as prepackaged software.

(3) The value of any capitalized labor costs that are directly allocable to the construction or modification of property described in paragraph (1) or (2).

(4) In the case of any qualified taxpayer engaged in manufacturing activities described in SIC Code 357 or 367, those activities related to biotechnology described in SIC Code 8731, those activities related to biopharmaceutical establishments only that are described in SIC Codes 2833 to 2836, inclusive, those activities related to space vehicles and parts described in SIC Codes 3761 to 3769, inclusive, those activities related to space satellites and communications satellites and equipment described in SIC Codes 3663 and 3812 (but only with respect to “qualified property” that is placed in service on or after January 1, 1996), or those activities related to semiconductor equipment manufacturing described in SIC Code 3559 (but only with respect to “qualified property” that is placed in service on or after January 1, 1997), “qualified property” also includes the following:

(A) Special purpose buildings and foundations that are constructed or modified for use by the qualified taxpayer primarily in a manufacturing, processing, refining, or fabricating process, or as a research or storage facility primarily used in connection with a manufacturing process.

(B) The value of any capitalized labor costs that are directly allocable to the construction or modification of special purpose buildings and foundations that are used primarily in the manufacturing, processing, refining, or fabricating process, or as a research or storage facility primarily used in connection with a manufacturing process.

1 (C) (i) For purposes of this paragraph, “special purpose
2 building and foundation” means only a building and the
3 foundation immediately underlying the building that is
4 specifically designed and constructed or reconstructed for the
5 installation, operation, and use of specific machinery and
6 equipment with a special purpose, which machinery and
7 equipment, after installation, will become affixed to or a fixture of
8 the real property, and the construction or reconstruction of which
9 is specifically designed and used exclusively for the specified
10 purposes as set forth in subparagraph (A) (“qualified purpose”).

11 (ii) A building is specifically designed and constructed or
12 modified for a qualified purpose if it is not economical to design
13 and construct the building for the intended purpose and then use
14 the structure for a different purpose.

15 (iii) For purposes of clause (i) and clause (vi), a building is used
16 exclusively for a qualified purpose only if its use does not include
17 a use for which it was not specifically designed and constructed or
18 modified. Incidental use of a building for nonqualified purposes
19 does not preclude the building from being a special purpose
20 building. “Incidental use” means a use which is both related and
21 subordinate to the qualified purpose. It will be conclusively
22 presumed that a use is not subordinate if more than one-third of the
23 total usable volume of the building is devoted to a use which is not
24 a qualified purpose.

25 (iv) In the event an entire building does not qualify as a special
26 purpose building, a taxpayer may establish that a portion of a
27 building, and the foundation immediately underlying the portion,
28 qualifies for treatment as a special purpose building and
29 foundation if the portion satisfies all of the definitional provisions
30 in this subparagraph.

31 (v) To the extent that a building is not a special purpose
32 building as defined above, but a portion of the building qualifies
33 for treatment as a special purpose building, then all equipment
34 which exclusively supports the qualified purpose occurring within
35 that portion and which would qualify as Internal Revenue Code
36 Section 1245 property if it were not a fixture or affixed to the
37 building shall be treated as a cost of the portion of the building
38 which qualifies for treatment as a special purpose building.

39 (vi) Buildings and foundations which do not meet the
40 definition of a special purpose building and foundation set forth



1 above include, but are not limited to: buildings designed and
2 constructed or reconstructed principally to function as a general
3 purpose manufacturing, industrial, or commercial building;
4 research facilities that are used primarily prior to or after, or prior
5 to and after, the manufacturing process; or storage facilities that
6 are used primarily prior to or after, or prior to and after, completion
7 of the manufacturing process. A research facility shall not be
8 considered to be used primarily prior to or after, or prior to and
9 after, the manufacturing process if its purpose and use relate
10 exclusively to the development and regulatory approval of the
11 manufacturing process for specific biopharmaceutical products. A
12 research facility which is used primarily in connection with the
13 discovery of an organism from which a biopharmaceutical product
14 or process is developed does not meet the requirements of the
15 preceding sentence.

16 (5) Subject to the provisions in subparagraph (B) of paragraph
17 (1) of subdivision (b), qualified property also includes computer
18 software that is primarily used for those purposes set forth in
19 paragraph (1) or (2) of this subdivision.

20 (6) Qualified property does not include any of the following:

21 (A) Furniture.

22 (B) Facilities used for warehousing purposes after completion
23 of the manufacturing process.

24 (C) Inventory.

25 (D) Equipment used in the extraction process.

26 (E) Equipment used to store finished products that have
27 completed the manufacturing process.

28 (F) Any tangible personal property that is used in
29 administration, general management, or marketing.

30 (G) Any vehicle for which a credit is claimed pursuant to
31 Section 17052.11 or 23603.

32 (e) For purposes of this section:

33 (1) “Biopharmaceutical activities” means those activities that
34 use organisms or materials derived from organisms, and their
35 cellular, subcellular, or molecular components, in order to provide
36 pharmaceutical products for human or animal therapeutics and
37 diagnostics. Biopharmaceutical activities make use of living
38 organisms to make commercial products, as opposed to
39 pharmaceutical activities which make use of chemical compounds
40 to produce commercial products.

(2) “Fabricating” means to make, build, create, produce, or assemble components or property to work in a new or different manner.

(3) “Manufacturing” means the activity of converting or conditioning property by changing the form, composition, quality, or character of the property for ultimate sale at retail or use in the manufacturing of a product to be ultimately sold at retail. Manufacturing includes any improvements to tangible personal property that result in a greater service life or greater functionality than that of the original property.

(4) “Other biotechnology activities” means activities consisting of the application of recombinant DNA technology to produce commercial products, as well as activities regarding pharmaceutical delivery systems designed to provide a measure of control over the rate, duration, and site of pharmaceutical delivery.

(5) “Primarily” means tangible personal property used 50 percent or more of the time in an activity described in subdivision (d).

(6) “Process” means the period beginning at the point at which any raw materials are received by the qualified taxpayer and introduced into the manufacturing, processing, refining, fabricating, or recycling activity of the qualified person and ending at the point at which the manufacturing, processing, refining, fabricating, or recycling activity of the qualified taxpayer has altered tangible personal property to its completed form, including packaging, if required. Raw materials shall be considered to have been introduced into the process when the raw materials are stored on the same premises where the qualified taxpayer’s manufacturing, processing, refining, fabricating, or recycling activity is conducted. Raw materials that are stored on premises other than where the qualified taxpayer’s manufacturing, processing, refining, fabricating, or recycling activity is conducted, shall not be considered to have been introduced into the manufacturing, processing, refining, fabricating, or recycling process.

(7) “Processing” means the physical application of the materials and labor necessary to modify or change the characteristics of property.

(8) “Refining” means the process of converting a natural resource to an intermediate or finished product.

(9) “Research and development” means those activities that are described in Section 174 of the Internal Revenue Code or in any regulations thereunder.

(10) “Small business” means a qualified taxpayer that meets any of the following requirements during the taxable year for which the credit is allowed:

(A) Has gross receipts of less than fifty million dollars (\$50,000,000).

(B) Has net assets of less than fifty million dollars (\$50,000,000).

(C) Has a total credit of less than one million dollars (\$1,000,000).

(D) For taxable years beginning on or after January 1, 1997, is engaged in biopharmaceutical activities or other biotechnology activities that are described in Codes 2833 to 2836, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, and has not received regulatory approval for any product from the United States Food and Drug Administration.

(f) The credit allowed under subdivision (a) shall apply to qualified property that is acquired by or subject to lease by a qualified taxpayer, subject to the following special rules:

(1) A lessor of qualified property, irrespective of whether the lessor is a qualified taxpayer, shall not be allowed the credit provided under subdivision (a) with respect to any qualified property leased to another qualified taxpayer.

(2) For purposes of paragraphs (2) and (3) of subdivision (b), “binding contract” shall include any lease agreement with respect to the qualified property.

(3) (A) For purposes of determining the qualified cost paid or incurred by a lessee in any leasing transaction that is not treated as a sale under Part 1 (commencing with Section 6001), the following rules shall apply:

(i) Except as provided by subparagraph (C) of this paragraph, subparagraphs (A) and (C) of paragraph (1) of subdivision (b) shall not apply.

(ii) Except as provided in subparagraph (B) and clause (iii), the “qualified cost” upon which the lessee shall compute the credit provided under this section shall be equal to the original cost to the

1 lessor (within the meaning of Section 24912) of the qualified
2 property that is the subject of the lease.

3 (iii) Except as provided in clause (iv), the requirement of
4 subparagraph (B) of paragraph (1) of subdivision (b) shall be
5 treated as satisfied only if the lessor has made a timely election
6 under either Section 6094.1 or subdivision (d) of Section 6244 and
7 has paid sales tax reimbursement or use tax measured by the
8 purchase price of the qualified property (within the meaning of
9 paragraph (5) of subdivision (g) of Section 6006). For purposes of
10 this subdivision and clause (iv), the amount of original cost to the
11 lessor which may be taken into account under clause (ii) shall not
12 exceed the purchase price upon which sales tax reimbursement or
13 use tax has been paid under the preceding sentence or under clause
14 (iv).

15 (iv) With respect to leases entered into between January 1,
16 1994, and the effective date of this clause, the lessor may elect to
17 pay use tax measured by the purchase price of the property by
18 reporting and paying the tax with the return of the lessor for the
19 fourth calendar quarter of 1994. In computing the use tax under the
20 preceding sentence, a credit shall be allowed under Part 1
21 (commencing with Section 6001) for all sales or use tax previously
22 paid on the lease.

23 (B) For purposes of applying subparagraph (A) only, the
24 following special rules shall apply:

25 (i) The original cost to the lessor of the qualified property shall
26 be reduced by the amount of any original cost of that property that
27 was taken into account by any predecessor lessee in computing the
28 credit allowable under this section.

29 (ii) Clause (i) shall not apply in any case where the predecessor
30 lessee was required to recapture the credit provided under this
31 section pursuant to subdivision (g).

32 (iii) For purposes of this section only, in any case where a
33 successor lessor has acquired qualified property from a
34 predecessor lessor in a transaction not treated as a sale under Part
35 1 (commencing with Section 6001), the original cost to the
36 successor lessor of the qualified property shall be reduced by the
37 amount of the original cost of the qualified property that was taken
38 into account by any lessee of the predecessor lessor in computing
39 the credit allowable under this section.

(C) In determining the original cost of any qualified property under this paragraph, only amounts paid or incurred by the lessor on or after January 1, 1994, and prior to the date this section ceases to be operative under paragraph (2) of subdivision (i), shall be taken into account. In the case of any qualified property constructed, reconstructed, or acquired by a lessor pursuant to a binding contract in existence on or prior to January 1, 1994, the allocation rule specified in subparagraph (A) of paragraph (1) of subdivision (b) shall apply in determining the original cost to the lessor of qualified property.

(D) Notwithstanding subparagraph (A), in the case of any leasing transaction for which the lessee is allowed the credit under this section and thereafter the lessee (or any party related to the lessee within the meaning of Section 267 or 318 of the Internal Revenue Code) acquires the qualified property from the lessor (or any successor lessor) within one year from the date the qualified property is first used by the lessee under the terms of the lease, the lessee's (or related party's) acquisition of the qualified property from the lessor (or successor lessor) shall be treated as a disposition by the lessee of the qualified property that was subject to the lease under subdivision (g).

(4) For purposes of determining the qualified cost paid or incurred by a lessee in any leasing transaction that is treated as a sale under Part 1 (commencing with Section 6001), the following rules shall apply:

(A) Subparagraph (A) of paragraph (1) of subdivision (b) shall be applied by substituting the term "purchase" for the term "construction, reconstruction, or acquisition."

(B) Subparagraph (C) of paragraph (1) of subdivision (b) shall apply.

(C) The requirement of subparagraph (B) of paragraph (1) of subdivision (b) shall be treated as satisfied at the time that either the lessor or the qualified taxpayer pays sales or use tax under Part 1 (commencing with Section 6001).

(5) (A) In the case of any leasing transaction described in paragraph (3), the lessor shall provide a statement to the lessee specifying the amount of the lessor's original cost of the qualified property and the amount of that cost upon which a sales or use tax was paid within 45 days after the close of the lessee's taxable year in which the credit is allowable to the lessee under this section.

1 (B) The statement required under subparagraph (A) shall be
2 made available to the Franchise Tax Board upon request.

3 (6) For purposes of this subdivision, in the case of any qualified
4 taxpayer engaged in those lines of business described in Codes
5 7371 to 7373, inclusive, of the Standard Industrial Classification
6 (SIC) Manual published by the United States Office of
7 Management and Budget, 1987 edition, “the first taxable year
8 beginning on or after January 1, 1998,” shall be substituted for
9 “January 1, 1994,” in each place in which it appears. In addition,
10 “the effective date of this paragraph” shall be substituted for “the
11 effective date of this clause” and “fourth calendar quarter of
12 1998” shall be substituted for “fourth calendar quarter of 1994.”

13 (g) No credit shall be allowed if the qualified property is
14 removed from the state, is disposed of to an unrelated party, or is
15 used for any purpose not qualifying for the credit provided in this
16 section in the same taxable year in which the qualified property is
17 first placed in service in this state. If any qualified property for
18 which a credit is allowed pursuant to this section is thereafter
19 removed from this state, disposed of to an unrelated party, or used
20 for any purpose not qualifying for the credit provided in this
21 section within one year from the date the qualified property is first
22 placed in service in this state, the amount of the credit allowed by
23 this section for that qualified property shall be recaptured by
24 adding that credit amount to the net tax of the qualified taxpayer
25 for the taxable year in which the qualified property is disposed of,
26 removed, or put to an ineligible use. The sale of stock for which
27 an election was made or deemed to have been made pursuant to
28 Section 338(g) or 338(h)(10) of the Internal Revenue Code may
29 not be treated as a disposition of qualified property to an unrelated
30 party for purposes of this subdivision.

31 (h) In the case where the credit allowed by this section exceeds
32 the “tax,” the excess may be carried over to reduce the “tax” in
33 the following year, and succeeding years as follows:

34 (1) Except as provided in paragraph (2), for the seven
35 succeeding years if necessary, until the credit is exhausted.

36 (2) In the case of a small business, for the nine succeeding
37 years, if necessary, until the credit is exhausted.

38 (i) (1) This section shall remain in effect until the date
39 specified in paragraph (2) on which date this section shall cease to
40 be operative, and as of that date is repealed.

(2) (A) This section shall cease to be operative on January 1, 2001, or on January 1 of the earliest year thereafter, if the total employment in this state, as determined by the Employment Development Department on the preceding January 1, does not exceed by 100,000 jobs the total employment in this state on January 1, 1994. The department shall report to the Legislature annually with respect to the determination required by the preceding sentence.

(B) For purposes of this paragraph, “total employment” means the total employment in the manufacturing sector, excluding employment in the aerospace sector.

(j) The amendments made by the act adding this subdivision shall be operative for taxable years beginning on or after January 1, 1997, except as provided in paragraph (3) of subdivision (d).

(k) The amendments made by the act adding this subdivision shall be operative for taxable years beginning on or after January 1, 1998.

~~SEC. 38.~~

SEC. 36. Section 23772 of the Revenue and Taxation Code is amended to read:

23772. (a) For the purposes of this part—

(1) Except as provided in paragraph (2) every organization exempt from taxation under Section 23701 and every trust treated as a private foundation because of Section 4947(a)(1) of the Internal Revenue Code shall file an annual return, stating specifically the items of gross income, receipts, and disbursements, and any other information for the purpose of carrying out the laws under this part as the Franchise Tax Board may by rules or regulations prescribe, and shall keep any records, render under oath any statements, make any other returns, and comply with any rules and regulations as the Franchise Tax Board may from time to time prescribe. The return shall be filed on or before the 15th day of the fifth full calendar month following the close of the taxable year.

(2) Exceptions from filing—

(A) Mandatory exceptions—Paragraph (1) shall not apply to—

(i) Churches, their integrated auxiliaries, and conventions or association of churches,

(ii) Any organization (other than a private foundation as defined in Section 23709), the gross receipts of which in each

1 taxable year are normally not more than twenty-five thousand
2 dollars (\$25,000), or

3 (iii) The exclusively religious activities of any religious order.

4 (B) Discretionary exceptions—The Franchise Tax Board may
5 permit the filing of a simplified return for organizations based on
6 either gross receipts or total assets or both gross receipts and total
7 assets, or may permit the filing of an information statement
8 (without fee), or may permit the filing of a group return for
9 incorporated or unincorporated branches of a state or national
10 organization where it determines that an information return is not
11 necessary to the efficient administration of this part.

12 (3) An organization that is required to file an annual
13 information return shall pay a filing fee of ten dollars (\$10) on or
14 before the due date for filing the annual information return
15 (determined with regard to any extension of time for filing the
16 return) required by this section. In case of failure to pay the fee on
17 or before the due date unless it is shown that the failure is due to
18 reasonable cause, the filing fee shall be twenty-five dollars (\$25).
19 All collection remedies provided in Article 5 (commencing with
20 Section 18661) of Chapter 2 of Part 10.2 shall be applicable to
21 collection of the filing fee. However, the filing fee shall not apply
22 to the organization described in paragraph (4).

23 (4) Paragraph (3) shall not apply to: (A) a religious
24 organization exempt under Section 23701d; (B) an educational
25 organization exempt under Section 23701d, if that organization
26 normally maintains a regular faculty and curriculum and normally
27 has a regularly organized body of pupils or students in attendance
28 at the place where its educational activities are regularly carried
29 on; (C) a charitable organization, or an organization for the
30 prevention of cruelty to children or animals, exempt under Section
31 23701d, if that organization is supported, in whole or in part, by
32 funds contributed by the United States or any state or political
33 subdivision thereof, or is primarily supported by contributions of
34 the general public; (D) an organization exempt under Section
35 23701d, if that organization is operated, supervised, or controlled
36 by or in connection with a religious organization described in
37 subparagraph (A).

38 (b) Every organization described in Section 23701d that is
39 subject to the requirements of subdivision (a) shall furnish
40 annually information, at the time and in the manner as the

Franchise Tax Board may by rules or regulations prescribe, setting forth—

(1) Its gross income for the year,

(2) Its expenses attributable to gross income and incurred within the year,

(3) Its disbursements within the year for the purposes for which it is exempt,

(4) A balance sheet showing its assets, liabilities, and net worth as of the beginning of that year,

(5) The total of the contributions and gifts received by it during the year, and the names and addresses of all substantial contributors,

(6) The names and addresses of its foundation manager (within the meaning of Section 4946 of the Internal Revenue Code) and highly compensated employees,

(7) The compensation and other payments made during the year to each individual described in paragraph (6),

(8) In the case of an organization with respect to which an election under Section 23704.5 is effective for the taxable year, the following amounts for that organization for that taxable year:

(A) The lobbying expenditures (as defined in Section 4911(c)(1) of the Internal Revenue Code).

(B) The lobbying nontaxable amount (as defined in Section 4911(c)(2) of the Internal Revenue Code).

(C) The grassroots expenditures (as defined in Section 4911(c)(3) of the Internal Revenue Code).

(D) The grassroots nontaxable amount (as defined in Section 4911(c)(4) of the Internal Revenue Code). For purposes of this paragraph, if Section 23740(f) applies to the organization for the taxable year, the organization shall furnish the amounts with respect to the affiliated group as well as with respect to the organization.

(9) Such other information with respect to direct or indirect transfers to, and other direct or indirect transactions and relationships with, other organizations described in Sections 23701a to 23701w, inclusive (other than Sections 23701d, 23701k, and 23701t), as the Franchise Tax Board may require to prevent either of the following:

(A) Diversion of funds from the organization's exempt purpose.

1 (B) Misallocation of revenue or expense, and

2 (10) Any other relevant information as the Franchise Tax
3 Board may prescribe.

4 (c) In addition to the above annual return any organization
5 which is required to file an annual report under Section 6056 of the
6 Internal Revenue Code will furnish a copy of the report to the
7 Franchise Tax Board at the time the annual return is due.

8 (d) For the purposes of this part—

9 (1) In the case of a failure to file a return required under this
10 section on the date and in the manner prescribed therefor
11 (determined with regard to any extension of time for filing), unless
12 it is shown that the failure is due to reasonable cause, there shall
13 be paid (on notice and demand by the Franchise Tax Board and in
14 the same manner as tax) by the exempt organization or trust failing
15 so to file, five dollars (\$5) for each month or part thereof during
16 which the failure continues, but the total amount imposed
17 hereunder on any organization for failure to file any return shall
18 not exceed forty dollars (\$40).

19 (2) The Franchise Tax Board may make written demand upon
20 a private foundation failing to file under paragraph (1) of this
21 subdivision or subdivision (c) specifying therein a reasonable
22 future date by which the filing shall be made, and if the filing is not
23 made on or before that date, and unless it is shown that failure so
24 to file is due to reasonable cause, there shall be paid (on notice and
25 demand by the Franchise Tax Board and in the same manner as tax)
26 by the person failing so to file, in addition to the penalty prescribed
27 in paragraph (1), a penalty of five dollars (\$5) each month or part
28 thereof after the expiration of the time specified in the written
29 demand during which the failure continues, but the total amount
30 imposed hereunder on all persons for the failure to file shall not
31 exceed twenty-five dollars (\$25). If more than one person is liable
32 under this paragraph for a failure to file, all of those persons shall
33 be jointly and severally liable with respect to the failure. The term
34 “person” as used herein means any officer, director, trustee,
35 employee, member, or other individual who is under a duty to
36 perform the act in respect of which the violation occurs.

37 (e) The reporting requirements and penalties shall be
38 applicable for taxable years beginning after December 31, 1970,
39 except that the provisions of subparagraph (B) of paragraph (2) of

subdivision (a) shall apply to taxable years ending after December 31, 1970.

~~SEC. 39.~~

SEC. 37. Section 24416 of the Revenue and Taxation Code is amended to read:

24416. Except as provided in Section 24416.1, 24416.2, 24416.4, 24416.5, or 24416.6, a net operating loss deduction shall be allowed in computing net income under Section 24341 and shall be determined in accordance with Section 172 of the Internal Revenue Code, except as otherwise provided.

(a) (1) Net operating losses attributable to taxable years beginning before January 1, 1987, shall not be allowed.

(2) A net operating loss shall not be carried forward to any taxable year beginning before January 1, 1987.

(b) (1) Except as provided in paragraphs (2) and (3), the provisions of Section 172(b)(2) of the Internal Revenue Code, relating to the amount of carryovers, shall be modified so that the applicable percentage of the entire amount of the net operating loss for any taxable year shall be eligible for carryover to any subsequent taxable year. For purposes of this subdivision, the applicable percentage shall be:

(A) Fifty percent for any taxable year beginning before January 1, 2000.

(B) Fifty-five percent for any taxable year beginning on or after January 1, 2000, and before January 1, 2002.

(C) Sixty percent for any taxable year beginning on or after January 1, 2002, and before January 1, 2004.

(D) Sixty-five percent for any taxable year beginning on or after January 1, 2004.

(2) In the case of a taxpayer who has a net operating loss in any taxable year beginning on or after January 1, 1994, and who operates a new business during that taxable year, each of the following shall apply to each loss incurred during the first three taxable years of operating the new business:

(A) If the net operating loss is equal to or less than the net loss from the new business, 100 percent of the net operating loss shall be carried forward as provided in subdivision (e).

(B) If the net operating loss is greater than the net loss from the new business, the net operating loss shall be carried over as follows:

1 (i) With respect to an amount equal to the net loss from the new
2 business, 100 percent of that amount shall be carried forward as
3 provided in subdivision (e).

4 (ii) With respect to the portion of the net operating loss that
5 exceeds the net loss from the new business, the applicable
6 percentage of that amount shall be carried forward as provided in
7 subdivision (d).

8 (C) For purposes of Section 172(b)(2) of the Internal Revenue
9 Code, the amount described in clause (ii) of subparagraph (B) shall
10 be absorbed before the amount described in clause (i) of
11 subparagraph (B).

12 (3) In the case of a taxpayer who has a net operating loss in any
13 taxable year beginning on or after January 1, 1994, and who
14 operates an eligible small business during that taxable year, each
15 of the following shall apply:

16 (A) If the net operating loss is equal to or less than the net loss
17 from the eligible small business, 100 percent of the net operating
18 loss shall be carried forward to the taxable years specified in
19 paragraph (1) of subdivision (e).

20 (B) If the net operating loss is greater than the net loss from the
21 eligible small business, the net operating loss shall be carried over
22 as follows:

23 (i) With respect to an amount equal to the net loss from the
24 eligible small business, 100 percent of that amount shall be carried
25 forward as provided in subdivision (e).

26 (ii) With respect to that portion of the net operating loss that
27 exceeds the net loss from the eligible small business, the applicable
28 percentage of that amount shall be carried forward as provided in
29 subdivision (e).

30 (C) For purposes of Section 172(b)(2) of the Internal Revenue
31 Code, the amount described in clause (ii) of subparagraph (B) shall
32 be absorbed before the amount described in clause (i) of
33 subparagraph (B).

34 (4) In the case of a taxpayer who has a net operating loss in a
35 taxable year beginning on or after January 1, 1994, and who
36 operates a business that qualifies as both a new business and an
37 eligible small business under this section, that business shall be
38 treated as a new business for the first three taxable years of the new
39 business.



(5) In the case of a taxpayer who has a net operating loss in a taxable year beginning on or after January 1, 1994, and who operates more than one business, and more than one of those businesses qualifies as either a new business or an eligible small business under this section, paragraph (2) shall be applied first, except that if there is any remaining portion of the net operating loss after application of clause (i) of subparagraph (B) of paragraph (2), paragraph (3) shall be applied to the remaining portion of the net operating loss as though that remaining portion of the net operating loss constituted the entire net operating loss.

(6) For purposes of this section, “net loss” means the amount of net loss after application of Sections 465 and 469 of the Internal Revenue Code.

(c) For any taxable year in which the taxpayer has in effect a water’s-edge election under Section 25110, the deduction of a net operating loss carryover shall be denied to the extent that the net operating loss carryover was determined by taking into account the income and factors of an affiliated corporation in a combined report whose income and apportionment factors would not have been taken into account if a water’s-edge election under Section 25110 had been in effect for the taxable year in which the loss was incurred.

(d) Net operating loss carrybacks shall not be allowed.

(e) (1) (A) For a net operating loss for any taxable year beginning on or after January 1, 1987, and before January 1, 2000, Section 172(b)(1)(A)(ii) of the Internal Revenue Code, relating to years to which net operating losses may be carried, is modified to substitute “five taxable years” in lieu of “20 taxable years” except as otherwise provided in paragraphs (2), (3), and (4).

(B) For a net operating loss for any taxable year beginning on or after January 1, 2000, Section 172(b)(1)(A)(ii) of the Internal Revenue Code, relating to years to which net operating losses may be carried, is modified to substitute “10 taxable years” in lieu of “20 taxable years.”

(2) For any taxable year beginning before January 1, 2000, in the case of a “new business,” the “five taxable years” referred to in paragraph (1) shall be modified to read as follows:

(A) “Eight taxable years” for a net operating loss attributable to the first taxable year of that new business.

1 (B) “Seven taxable years” for a net operating loss attributable
2 to the second taxable year of that new business.

3 (C) “Six taxable years” for a net operating loss attributable to
4 the third taxable year of that new business.

5 (3) For any carryover of a net operating loss for which a
6 deduction is denied by Section 24416.3, the carryover period
7 specified in this subdivision shall be extended as follows:

8 (A) By one year for a net operating loss attributable to taxable
9 years beginning in 1991.

10 (B) By two years for a net operating loss attributable to taxable
11 years beginning prior to January 1, 1991.

12 (4) The net operating loss attributable to taxable years
13 beginning on or after January 1, 1987, and before January 1, 1994,
14 shall be a net operating loss carryover to each of the 10 taxable
15 years following the year of the loss if it is incurred by a corporation
16 that was either of the following:

17 (A) Under the jurisdiction of the court in a Title 11 or similar
18 case at any time prior to January 1, 1994. The loss carryover
19 provided in the preceding sentence shall not apply to any loss
20 incurred in a taxable year after the taxable year during which the
21 corporation is no longer under the jurisdiction of the court in a Title
22 11 or similar case.

23 (B) In receipt of assets acquired in a transaction that qualifies
24 as a tax-free reorganization under Section 368(a)(1)(G) of the
25 Internal Revenue Code.

26 (f) For purposes of this section:

27 (1) “Eligible small business” means any trade or business that
28 has gross receipts, less returns and allowances, of less than one
29 million dollars (\$1,000,000) during the taxable year.

30 (2) Except as provided in subdivision (g), “new business”
31 means any trade or business activity that is first commenced in this
32 state on or after January 1, 1994.

33 (3) “Title 11 or similar case” shall have the same meaning as
34 in Section 368(a)(3) of the Internal Revenue Code.

35 (4) In the case of any trade or business activity conducted by a
36 partnership or an S corporation, paragraphs (1) and (2) shall be
37 applied to the partnership or S corporation.

38 (g) For purposes of this section, in determining whether a trade
39 or business activity qualifies as a new business under paragraph (2)
40 of subdivision (e), the following rules shall apply:

(1) In any case where a taxpayer purchases or otherwise acquires all or any portion of the assets of an existing trade or business (irrespective of the form of entity) that is doing business in this state (within the meaning of Section 23101), the trade or business thereafter conducted by the taxpayer (or any related person) shall not be treated as a new business if the aggregate fair market value of the acquired assets (including real, personal, tangible, and intangible property) used by the taxpayer (or any related person) in the conduct of its trade or business exceeds 20 percent of the aggregate fair market value of the total assets of the trade or business being conducted by the taxpayer (or any related person). For purposes of this paragraph only, the following rules shall apply:

(A) The determination of the relative fair market values of the acquired assets and the total assets shall be made as of the last day of the first taxable year in which the taxpayer (or any related person) first uses any of the acquired trade or business assets in its business activity.

(B) Any acquired assets that constituted property described in Section 1221(1) of the Internal Revenue Code in the hands of the transferor shall not be treated as assets acquired from an existing trade or business, unless those assets also constitute property described in Section 1221(1) of the Internal Revenue Code in the hands of the acquiring taxpayer (or related person).

(2) In any case where a taxpayer (or any related person) is engaged in one or more trade or business activities in this state, or has been engaged in one or more trade or business activities in this state within the preceding 36 months (“prior trade or business activity”), and thereafter commences an additional trade or business activity in this state, the additional trade or business activity shall only be treated as a new business if the additional trade or business activity is classified under a different division of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, than are any of the taxpayer’s (or any related person’s) current or prior trade or business activities.

(3) In any case where a taxpayer, including all related persons, is engaged in trade or business activities wholly outside of this state and the taxpayer first commences doing business in this state (within the meaning of Section 23101) after December 31, 1993



(other than by purchase or other acquisition described in paragraph (1)), the trade or business activity shall be treated as a new business under paragraph (2) of subdivision (e).

(4) In any case where the legal form under which a trade or business activity is being conducted is changed, the change in form shall be disregarded and the determination of whether the trade or business activity is a new business shall be made by treating the taxpayer as having purchased or otherwise acquired all or any portion of the assets of an existing trade or business under the rules of paragraph (1) of this subdivision.

(5) “Related person” shall mean any person that is related to the taxpayer under either Section 267 or 318 of the Internal Revenue Code.

(6) “Acquire” shall include any transfer, whether or not for consideration.

(7) (A) For taxable years beginning on or after January 1, 1997, the term “new business” shall include any taxpayer that is engaged in biopharmaceutical activities or other biotechnology activities that are described in Codes 2833 to 2836, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, and as further amended, and that has not received regulatory approval for any product from the United States Food and Drug Administration.

(B) For purposes of this paragraph:

(i) “Biopharmaceutical activities” means those activities which use organisms or materials derived from organisms, and their cellular, subcellular, or molecular components, in order to provide pharmaceutical products for human or animal therapeutics and diagnostics. Biopharmaceutical activities make use of living organisms to make commercial products, as opposed to pharmaceutical activities which make use of chemical compounds to produce commercial products.

(ii) “Other biotechnology activities” means activities consisting of the application of recombinant DNA technology to produce commercial products, as well as activities regarding pharmaceutical delivery systems designed to provide a measure of control over the rate, duration, and site of pharmaceutical delivery.

(h) For purposes of corporations whose net income is determined under Chapter 17 (commencing with Section 25101), Section 25108 shall apply to each of the following:

(1) The amount of net operating loss incurred in any taxable year which may be carried forward to another taxable year.

(2) The amount of any loss carry forward which may be deducted in any taxable year.

(i) The provisions of Section 172(b)(1)(D) of the Internal Revenue Code, relating to bad debt losses of commercial banks, shall not be applicable.

(j) The Franchise Tax Board may prescribe appropriate regulations to carry out the purposes of this section, including any regulations necessary to prevent the avoidance of the purposes of this section through splitups, shell corporations, partnerships, tiered ownership structures, or otherwise.

(k) The Franchise Tax Board may reclassify any net operating loss carryover determined under either paragraph (2) or (3) of subdivision (b) as a net operating loss carryover under paragraph (1) of subdivision (b) upon a showing that the reclassification is necessary to prevent evasion of the purposes of this section.

(l) Except as otherwise provided, the amendments made by the act adding this subdivision shall apply to net operating losses for taxable years beginning on or after January 1, 2000.

~~SEC. 40.~~

SEC. 38. Section 24453 of the Revenue and Taxation Code is amended to read:

24453. Section 302(c)(2) of the Internal Revenue Code, relating to determining termination of interest, is modified to refer to the periods of limitation provided in “Chapter 4 (commencing with Section 19001) and Chapter 5 (commencing with Section 19201) of Part 10.2,” in lieu of “Sections 6501 and 6502” of the Internal Revenue Code and to refer to “taxes imposed under the Personal Income Tax Law” and the “Corporation Tax Law,” in lieu of “Federal income tax.”

~~SEC. 41.~~

SEC. 39. Section 24472 of the Revenue and Taxation Code is amended to read:

24472. The amendments to Section 382 of the Internal Revenue Code made by Section 13226 of the Revenue Reconciliation Act of 1993 (P.L. 103-66), relating to

1 modifications of discharge of indebtedness provisions, shall apply
2 to discharges occurring on or after January 1, 1996, in taxable
3 years beginning on or after January 1, 1996.

4 ~~SEC. 42.—~~

5 *SEC. 40. Section 30459.4 of the Revenue and Taxation Code*
6 *is amended to read:*

7 30459.4. (a) A taxpayer may file a claim with the board for
8 reimbursement of bank charges *and any other reasonable*
9 *third-party check charge fees* incurred by the taxpayer as the direct
10 result of an erroneous levy or notice to withhold by the board. Bank
11 *and third-party* charges include a financial institution's *or third*
12 *party's* customary charge for complying with the levy or notice to
13 withhold instructions and reasonable charges for overdrafts that
14 are a direct consequence of the erroneous levy or notice to
15 withhold. The charges are those paid by the taxpayer and not
16 waived for reimbursement by the financial institution *or third*
17 *party*. Each claimant ~~applying~~ *applying* for reimbursement shall
18 file a claim with the board that shall be in a form as may be
19 prescribed by the board. In order for the board to grant a claim, the
20 board shall determine that both of the following conditions have
21 been satisfied:

22 (1) The erroneous levy or notice to withhold was caused by
23 board error.

24 (2) Prior to the levy or notice to withhold, the taxpayer
25 responded to all contacts by the board and provided the board with
26 any requested information or documentation sufficient to establish
27 the taxpayer's position. This provision may be waived by the board
28 for reasonable cause.

29 (b) Claims pursuant to this section shall be filed within 90 days
30 from the date of the levy or notice to withhold. Within 30 days
31 from the date the claim is received, the board shall respond to the
32 claim. If the board denies the claim, the taxpayer shall be notified
33 in writing of the reason or reasons for the denial of the claim.

34 *SEC. 41. Section 32402 of the Revenue and Taxation Code is*
35 *amended to read:*

36 32402. (a) Except as provided in subdivision (b) no refund
37 shall be approved by the board after three years from the 15th day
38 of the calendar month following the close of the period for which
39 the overpayment was made, or, with respect to determinations
40 made under Article 2 (commencing with Section 32271), 3

(commencing with Section 32291) or 5 (commencing with Section 32311) of Chapter 6 ~~within~~ *after* six months ~~after~~ *from the date* the determinations become final, *or after six months from the date of overpayment*, whichever period expires later, unless a claim therefor is filed with the board within that period. No credit shall be approved by the board after the expiration of that period unless a claim for credit is filed with the board within that period, or unless the credit relates to a period for which a waiver is given pursuant to Section 32273.

(b) A refund may be approved by the board for any period for which a waiver is given under Section 32273, if a claim therefor is filed with the board before the expiration of the period agreed upon.

(c) Every claim for refund or credit shall be in writing and shall state the specific grounds upon which the claim is founded.

SEC. 42. Section 32474 of the Revenue and Taxation Code is amended to read:

32474. (a) A taxpayer may file a claim with the board for reimbursement of bank charges *and any other reasonable third-party check charge fees* incurred by the taxpayer as the direct result of an erroneous levy or notice to withhold by the board. Bank *and third-party* charges include a financial institution's *or third party's* customary charge for complying with the levy or notice to withhold instructions and reasonable charges for overdrafts that are a direct consequence of the erroneous levy or notice to withhold. The charges are those paid by the taxpayer and not waived for reimbursement by the financial institution *or third party*. Each claimant applying for reimbursement shall file a claim with the board that shall be in a form as may be prescribed by the board. In order for the board to grant a claim, the board shall determine that both of the following conditions have been satisfied:

(1) The erroneous levy or notice to withhold was caused by board error.

(2) Prior to the levy or notice to withhold, the taxpayer responded to all contacts by the board and provided the board with any requested information or documentation sufficient to establish the taxpayer's position. This provision may be waived by the board for reasonable cause.

(b) Claims pursuant to this section shall be filed within 90 days from the date of the levy or notice to withhold. Within 30 days from the date the claim is received, the board shall respond to the claim. If the board denies the claim, the taxpayer shall be notified in writing of the reason or reasons for the denial of the claim.

SEC. 43. Section 40214 of the Revenue and Taxation Code is amended to read:

40214. (a) A taxpayer may file a claim with the board for reimbursement of bank charges *and any other reasonable third-party check charge fees* incurred by the taxpayer as the direct result of an erroneous levy or notice to withhold by the board. Bank *and third-party* charges include a financial institution's *or third party's* customary charge for complying with the levy or notice to withhold instructions and reasonable charges for overdrafts that are a direct consequence of the erroneous levy or notice to withhold. The charges are those paid by the taxpayer and not waived for reimbursement by the financial institution *or third party*. Each claimant applying for reimbursement shall file a claim with the board that shall be in a form as may be prescribed by the board. In order for the board to grant a claim, the board shall determine that both of the following conditions have been satisfied:

(1) The erroneous levy or notice to withhold was caused by board error.

(2) Prior to the levy or notice to withhold, the taxpayer responded to all contacts by the board and provided the board with any requested information or documentation sufficient to establish the taxpayer's position. This provision may be waived by the board for reasonable cause.

(b) Claims pursuant to this section shall be filed within 90 days from the date of the levy or notice to withhold. Within 30 days from the date the claim is received, the board shall respond to the claim. If the board denies the claim, the taxpayer shall be notified in writing of the reason or reasons for the denial of the claim.

SEC. 44. Section 41174 of the Revenue and Taxation Code is amended to read:

41174. (a) A taxpayer may file a claim with the board for reimbursement of bank charges *and any other reasonable third-party check charge fees* incurred by the taxpayer as the direct result of an erroneous levy or notice to withhold by the board. Bank

1 *and third-party* charges include a financial institution's *or third*
2 *party's* customary charge for complying with the levy or notice to
3 withhold instructions and reasonable charges for overdrafts that
4 are a direct consequence of the erroneous levy or notice to
5 withhold. The charges are those paid by the taxpayer and not
6 waived for reimbursement by the financial institution *or third*
7 *party*. Each claimant applying for reimbursement shall file a claim
8 with the board that shall be in a form as may be prescribed by the
9 board. In order for the board to grant a claim, the board shall
10 determine that both of the following conditions have been
11 satisfied:

12 (1) The erroneous levy or notice to withhold was caused by
13 board error.

14 (2) Prior to the levy or notice to withhold, the taxpayer
15 responded to all contacts by the board and provided the board with
16 any requested information or documentation sufficient to establish
17 the taxpayer's position. This provision may be waived by the board
18 for reasonable cause.

19 (b) Claims pursuant to this section shall be filed within 90 days
20 from the date of the levy or notice to withhold. Within 30 days
21 from the date the claim is received, the board shall respond to the
22 claim. If the board denies the claim, the taxpayer shall be notified
23 in writing of the reason or reasons for the denial of the claim.

24 *SEC. 45. Section 43525 of the Revenue and Taxation Code is*
25 *amended to read:*

26 43525. (a) A taxpayer may file a claim with the board for
27 reimbursement of bank charges *and any other reasonable*
28 *third-party check charge fees* incurred by the taxpayer as the direct
29 result of an erroneous levy or notice to withhold by the board. Bank
30 *and third-party* charges include a financial institution's *or third*
31 *party's* customary charge for complying with the levy or notice to
32 withhold instructions and reasonable charges for overdrafts that
33 are a direct consequence of the erroneous levy or notice to
34 withhold. The charges are those paid by the taxpayer and not
35 waived for reimbursement by the financial institution *or third*
36 *party*. Each claimant applying for reimbursement shall file a claim
37 with the board that shall be in a form as may be prescribed by the
38 board. In order for the board to grant a claim, the board shall
39 determine that both of the following conditions have been
40 satisfied:

1 (1) The erroneous levy or notice to withhold was caused by
2 board error.

3 (2) Prior to the levy or notice to withhold, the taxpayer
4 responded to all contacts by the board and provided the board with
5 any requested information or documentation sufficient to establish
6 the taxpayer's position. This provision may be waived by the board
7 for reasonable cause.

8 (b) Claims pursuant to this section shall be filed within 90 days
9 from the date of the levy or notice to withhold. Within 30 days
10 from the date the claim is received, the board shall respond to the
11 claim. If the board denies the claim, the taxpayer shall be notified
12 in writing of the reason or reasons for the denial of the claim.

13 *SEC. 46. Section 45652 of the Revenue and Taxation Code is*
14 *amended to read:*

15 45652. (a) Except as provided in subdivision (b), no refund
16 shall be approved by the board after three years from the due date
17 of the payment for the period for which the overpayment was
18 made, or, with respect to determinations made under Article 2
19 (commencing with Section 45201) of Chapter 3, ~~within six months~~
20 *after six months from the date* the determinations have become
21 final, or after six months from the date of overpayment, whichever
22 period expires later, unless a claim therefor is filed with the board
23 within that period. No credit shall be approved by the board after
24 the expiration of that period, unless a claim for credit is filed with
25 the board within that period or unless the credit relates to a period
26 for which a waiver is given pursuant to Section 45204.

27 (b) A refund may be approved by the board for any period for
28 which a waiver is given under Section 45204 if a claim therefor is
29 filed with the board before the expiration of the period agreed
30 upon.

31 (c) Every claim for refund or credit shall be in writing and shall
32 state the specific grounds upon which the claim is founded.

33 *SEC. 47. Section 45870 of the Revenue and Taxation Code is*
34 *amended to read:*

35 45870. (a) A ~~fee-payer~~ *feepayer* may file a claim with the
36 board for reimbursement of bank charges *and any other*
37 *reasonable third-party check charge fees* incurred by the taxpayer
38 as the direct result of an erroneous levy or notice to withhold by
39 the board. Bank *and third-party* charges include a financial
40 institution's *or third party's* customary charge for complying with

1 the levy or notice to withhold instructions and reasonable charges
2 for overdrafts that are a direct consequence of the erroneous levy
3 or notice to withhold. The charges are those paid by the ~~fee-payer~~
4 *feepayer* and not waived for reimbursement by the financial
5 institution *or third party*. Each claimant applying for
6 reimbursement shall file a claim with the board that shall be in a
7 form as may be prescribed by the board. In order for the board to
8 grant a claim, the board shall determine that both of the following
9 conditions have been satisfied:

10 (1) The erroneous levy or notice to withhold was caused by
11 board error.

12 (2) Prior to the levy or notice to withhold, the ~~fee-payer~~
13 *feepayer* responded to all contacts by the board and provided the
14 board with any requested information or documentation sufficient
15 to establish the ~~fee-payer's~~ *feepayer's* position. This provision may
16 be waived by the board for reasonable cause.

17 (b) Claims pursuant to this section shall be filed within 90 days
18 from the date of the levy or notice to withhold. Within 30 days
19 from the date the claim is received, the board shall respond to the
20 claim. If the board denies the claim, the ~~fee-payer~~ *feepayer* shall
21 be notified in writing of the reason or reasons for the denial of the
22 claim.

23 *SEC. 48. Section 46502 of the Revenue and Taxation Code is*
24 *amended to read:*

25 46502. (a) Except as provided in subdivision (b), no refund
26 shall be approved by the board after three years from the due date
27 of the payment for the period for which the overpayment was
28 made, or, with respect to determinations made under Article 2
29 (commencing with Section 46201), Article 3 (commencing with
30 Section 46251) or Article 4 (commencing with Section 46301) of
31 Chapter 3, ~~within six months~~ *after six months from the date* the
32 determinations become final, or after six months from the date of
33 overpayment, whichever period expires later, unless a claim
34 therefor is filed with the board within that period. No credit shall
35 be approved by the board after the expiration of that period, unless
36 a claim for credit is filed with the board within that period or unless
37 the credit relates to a period for which a waiver is given pursuant
38 to Section 46205.

39 (b) A refund may be approved by the board for any period for
40 which a waiver is given pursuant to Section 46205 if a claim

therefor is filed with the board before the expiration of the period agreed upon.

(c) If the board has made a determination under Article 2 (commencing with Section 46201), Article 3 (commencing with Section 46251), or Article 4 (commencing with Section 46301) of Chapter 3, and if a person's claim for refund was filed timely within the applicable six-month period specified by subdivision (a) or (b), that claim for refund shall be deemed to also apply to that person's later payments in full or partial satisfaction of that determination.

SEC. 49. Section 46625 of the Revenue and Taxation Code is amended to read:

46625. (a) A feepayer may file a claim with the board for reimbursement of bank charges *and any other reasonable third-party check charge fees* that are incurred by the feepayer as the direct result of an erroneous levy or notice to withhold by the board. Bank *and third-party* charges include a financial institution's *or third party's* customary charge for complying with either a levy or instructions in a notice to withhold, and reasonable charges for overdrafts that are a direct consequence of the erroneous levy or notice to withhold. Bank charges include only those charges that are paid by the feepayer and not waived for reimbursement by the financial institution *or third party*. Each claimant applying for reimbursement pursuant to this section shall file a claim with the board that shall be in the form as may be prescribed by the board. The board shall not grant a claim unless it determines that both of the following conditions have been satisfied:

(1) The erroneous levy or notice to withhold resulted from board error.

(2) Prior to the levy or notice to withhold, the feepayer responded to all contacts by the board and provided the board with any requested information or documentation that was sufficient to establish the feepayer's position. The requirement of this paragraph may be waived by the board for reasonable cause.

(b) Claims pursuant to this section shall be filed within 90 days from the date of the levy or notice to withhold that is asserted to be erroneous. The board shall respond to a claim filed pursuant to this section within 30 days of receipt. If the board denies a claim,

1 the taxpayer shall be notified in writing of the reason or reasons for
2 denial.

3 *SEC. 50. Section 50140 of the Revenue and Taxation Code is*
4 *amended to read:*

5 50140. (a) Except as provided in subdivision (b), the board
6 shall not approve a refund three years after the due date of the
7 payment for the period for which the overpayment was made, or,
8 with respect to determinations made under Article 2 (commencing
9 with Section 50113) of Chapter 3, ~~within six months~~ after *six*
10 *months from the date* the determinations have become final, or
11 after six months from the date of overpayment, whichever period
12 expires later, unless a claim therefor is filed with the board within
13 that period. The board shall not approve a credit after the
14 expiration of that period, unless a claim for credit is filed with the
15 board within that period.

16 (b) A refund may be approved by the board for any period for
17 which a waiver is given under Section 50113.2 if a claim is filed
18 with the board before the expiration of the period agreed upon.

19 (c) Every claim for refund or credit shall be in writing and shall
20 state the specific grounds upon which the claim is founded.

21 *SEC. 51. Section 50156.14 of the Revenue and Taxation Code*
22 *is amended to read:*

23 50156.14. (a) ~~A fee payer~~ *feepayer* may file a claim with the
24 board for reimbursement of bank charges *and any other*
25 *reasonable third-party check charge fees* incurred by the taxpayer
26 as the direct result of an erroneous levy or notice to withhold by
27 the board. Bank *and third-party* charges include a financial
28 institution's *or third party's* customary charge for complying with
29 the levy or notice to withhold instructions and reasonable charges
30 for overdrafts that are a direct consequence of the erroneous levy
31 or notice to withhold. The charges are those paid to the ~~fee payer~~
32 *feepayer* and not waived for reimbursement by the financial
33 institution *or third party*. Each claimant applying for
34 reimbursement shall file a claim with the board that shall be in a
35 form as may be prescribed by the board. In order for the board to
36 grant a claim, the board shall determine that both of the following
37 conditions have been satisfied:

38 (1) The erroneous levy or notice to withhold was caused by
39 board error.

1 (2) Prior to the levy or notice to withhold, the ~~fee payer~~
2 *feepayer* responded to all contacts by the board and provided the
3 board with any requested information or documentation sufficient
4 to establish the ~~fee payer's~~ *feepayer's* position. This provision may
5 be waived by the board for reasonable cause.

6 (b) Claims pursuant to this section shall be filed within 90 days
7 from the date of the levy or notice to withhold. Within 30 days
8 from the date the claim is received, the board shall respond to the
9 claim. If the board denies the claim, the ~~fee payer~~ *feepayer* shall
10 be notified in writing of the reason or reasons for the denial of the
11 claim.

12 SEC. 52. *Section 55053 is added to the Revenue and Taxation*
13 *Code, to read:*

14 55053. (a) *Any return, declaration, statement, or other*
15 *document required to be made under this part that is filed using*
16 *electronic media shall be filed and authenticated pursuant to any*
17 *method or form the board may prescribe.*

18 (b) *Notwithstanding any other law, any return, declaration,*
19 *statement, or other document otherwise required to be signed that*
20 *is filed by the taxpayer using electronic media in a form as required*
21 *by the board shall be deemed to be a signed, valid original*
22 *document, including upon reproduction to paper form by the*
23 *board.*

24 (c) *Electronic media includes, but is not limited to, computer*
25 *modem, magnetic media, optical disk, facsimile machine, or*
26 *telephone.*

27 SEC. 53. *Section 55222 of the Revenue and Taxation Code is*
28 *amended to read:*

29 55222. (a) Except as provided in subdivision (b), no refund
30 shall be approved by the board after three years from the due date
31 of the payment for the period for which the overpayment was
32 made, or, with respect to determinations made under Article 2
33 (commencing with Section 55061) of Chapter 3, ~~within six months~~
34 *after six months from the date* the determinations have become
35 final, or six months from the date of overpayment, whichever
36 period expires later, unless a claim therefor is filed with the board
37 within that period. No credit shall be approved by the board after
38 the expiration of that period, unless a claim for credit is filed with
39 the board within that period or unless the credit relates to a period
40 for which a waiver is given pursuant to Section 55064.

(b) A refund may be approved by the board for any period for which a waiver is given under Section 55064 if a claim therefor is filed with the board before the expiration of the period agreed upon.

(c) Every claim for refund or credit shall be in writing and shall state the specific grounds upon which the claim is founded.

SEC. 54. *Section 55335 of the Revenue and Taxation Code is amended to read:*

55335. (a) A taxpayer may file a claim with the board for reimbursement of bank charges *and any other reasonable third-party check charge fees* incurred by the taxpayer as the direct result of an erroneous levy or notice to withhold by the board. Bank *and third-party* charges include a financial institution's *or third party's* customary charge for complying with the levy or notice to withhold instructions and reasonable charges for overdrafts that are a direct consequence of the erroneous levy or notice to withhold. The charges are those paid by the taxpayer and not waived for reimbursement by the financial institution *or third party*. Each claimant applying for reimbursement shall file a claim with the board that shall be in a form as may be prescribed by the board. In order for the board to grant a claim, the board shall determine that both of the following conditions have been satisfied:

(1) The erroneous levy or notice to withhold was caused by board error.

(2) Prior to the levy or notice to withhold, the taxpayer responded to all contacts by the board and provided the board with any requested information or documentation sufficient to establish the taxpayer's position. This provision may be waived by the board for reasonable cause.

(b) Claims pursuant to this section shall be filed within 90 days from the date of the levy or notice to withhold. Within 30 days from the date the claim is received, the board shall respond to the claim. If the board denies the claim, the taxpayer shall be notified in writing of the reason or reasons for the denial of the claim.

SEC. 55. *Section 60633.1 of the Revenue and Taxation Code is amended to read:*

60633.1. (a) A taxpayer may file a claim with the board for reimbursement of bank charges *and any other reasonable third-party check charge fees* incurred by the taxpayer as the direct

1 result of an erroneous levy or notice to withhold by the board. Bank
2 *and third-party* charges include a financial institution's *or third*
3 *party's* customary charge for complying with the levy or notice to
4 withhold instructions and reasonable charges for overdrafts that
5 are a direct consequence of the erroneous levy or notice to
6 withhold. The charges are those paid by the taxpayer and not
7 waived for reimbursement by the financial institution *or third*
8 *party*. Each claimant applying for reimbursement shall file a claim
9 with the board that shall be in a form as may be prescribed by the
10 board. In order for the board to grant a claim, the board shall
11 determine that both of the following conditions have been
12 satisfied:

13 (1) The erroneous levy or notice to withhold was caused by
14 board error.

15 (2) Prior to the levy or notice to withhold, the taxpayer
16 responded to all contacts by the board and provided the board with
17 any requested information or documentation sufficient to establish
18 the taxpayer's position. This provision may be waived by the board
19 for reasonable cause.

20 (b) Claims pursuant to this section shall be filed within 90 days
21 from the date of the levy or notice to withhold. Within 30 days
22 from the date the claim is received, the board shall respond to the
23 claim. If the board denies the claim, the taxpayer shall be notified
24 in writing of the reason or reasons for the denial of the claim.

25 *SEC. 56.* Any section of any act enacted by the Legislature
26 during the 2001 calendar year, other than SB 662 (relating to
27 maintenance of the codes), that does both of the following shall
28 prevail over this act, whether that act is enacted prior to, or
29 subsequent to, the enactment of this act:

30 (a) Takes effect on or before January 1, 2002.

31 (b) Amends, amends and renumbers, adds, repeals, and adds,
32 or repeals a section that is amended by this act.